EFFECT OF ESG FACTORS ON INVESTMENT DECISION OF INVESTORS IN NEPAL

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial fulfillment of requirement for the Master's Degree

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "**Effect of ESG 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.

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REPORT OF RESEARCH COMMITTEE

Ms. Deepa Adhikari has defended research proposal entitled **"Effect of ESG 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 suggestion and guidelines of supervisor Kamal Prakash Adhikari Submit the thesis for evaluation and viva-voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled **"Effect of ESG Factors on Investment Decision of Investors in Nepal".** Presented by a Deepa Adhikari candidate for the degree of Master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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TABLE OF CONTENTS

Title Page ……*i*
Certification of Authorship……*ii*
Report of Research Committee……*iii*
Approval Sheet……*iv*
Acknowledgements……*v*
Table of Contents……*vi*
List of Tables……*viii*
List of Figures……*ix*
Abbreviations……*x*
Abstract……*xi*
CHAPTER I: INTRODUCTION **1**
1.1 Background of the Study 1
1.2 Problem Statement 4
1.3 Objectives of the Study 5
1.4 Research Hypothesis 6
1.5 Rationale of the Study 6
1.6 Limitations of the Study 7
CHAPTER II: LITERATURE REVIEW **8**
2.1 Conceptual Review 8
2.1.1 ESG Investing 8
2.1.2 Six Principles of ESG Investing 9
2.1.3 Environmental Factor 10
2.1.4 Social Factor 12
2.1.5 Governance Factor 13
2.1.6 ESG and Investment Decision Making 15
2.2 Theoretical Review 16
2.2.1 Stakeholder Theory 16
2.2.1 The Theory of Compounded Returns 18
2.2.3 Skeptical Theory 19
2.2.4 The Nice to Have Theory 19
2.3 Empirical Review 20

2.4 Research Gap 40
CHAPTER III: RESEARCH METHODOLOGY 43
3.1 Research Design 43
3.2 Population and Sample, and Sampling Design 43
3.3 Nature and Sources of Data and the Instrument of Data Collection 43
3.4 Method of Analysis 44
3.4.1 Mean 44
3.4.2 Standard Deviation (S.D.) 44
3.4.3 Correlation Analysis 45
3.4.4 Regression Analysis 45
3.4.5 Reliability Analysis 46
3.5 Research Framework and Definition of Variables 46
CHAPTER IV: RESULTS AND DISCUSSION 49
4.1 Results 49
4.1.1 Demographic Profile of Respondents 49
4.1.2 Descriptive Statistics 50
4.1.3 Correlation Analysis 56
4.1.4 Regression Analysis 57
4.1.5 Major Findings 59
4.1.6 Hypothesis Testing 60
4.2 Discussion 61
CHAPTER V: SUMMARY AND CONCLUSION 63
5.1 Summary 63
5.2 Conclusion 65
5.3 Implications 66
5.3.1 Managerial Implications 66
5.3.2 Practical Implications 66
REFERENCES
APPENDICES

LIST OF TABLES

Tables **Page**

Table 1 Summary of Empirical Review....33
Table 2 Reliability Test....46
Table 3 Demographic Profile of Respondents....49
Table 4 Summary of Descriptive Statistics....50
Table 5 Descriptive Result of Environmental Factor....51
Table 6 Descriptive Result of Social Factor....53
Table 7 Descriptive Result of Governance Factor....54
Table 8 Descriptive Result of Investment Decision....55
Table 9 Result of Correlation Analysis....56
Table 10 Model Summary of Regression Model....57
Table 11 ANOVA Table of Regression Model....58
Table 12 Beta Coefficient of Regression Model....58
Table 13 Hypothesis Testing....60

LIST OF FIGURES

Figure **Page**

Figure 1 Research framework of study.....47

ABBREVIATIONS

ANOVA	:	Analysis of Variances
CEO	:	Chief Executive Officer
CFP	:	Corporate Financial Performance
ESG	:	Environmental, Social, and Governance
EV	:	Environmental Factor
FY	:	Financial Year
GV	:	Governance Factor
ID	:	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
SO	:	Social Factor
TPB	:	Theory of Planned Behavior
UNGC	:	United Nations Global Compact
VIF	:	Variance Inflation Factor

ABSTRACT

Environmental, social, and governance (ESG) factors have gradually become the main determinants in global investment decisions, and this research was conducted to evaluate their effect and especially on the behavior of the investors in Nepal. The major goal of this study was to find out the influence of environmental, social, and governance matters on the decision-making processes of investors in the given country.

The researchers employed a descriptive and causal-comparative approach to investigate the investors' attitudes and behaviors towards the ESG factors. The census was taken from the 2,996,341 people that live in Kathmandu Valley, and then 400 people were selected to be part of the study by Yamane's formula, with a 5% error margin. Convenience sampling was the method of choice for data collection; primary data, via a structured questionnaire distributed to the sample and measured on the five points of the Likert scale, were the only ones used.

After the collection of data, analysis was done through the application of statistical tools like Microsoft Excel and SPSS which included descriptive statistics, correlation analysis, and multivariate regression. The research adopted the ESG factors as independent variables and investment decisions as dependent variables in the research framework to judge the impact of the ESG elements on the investor's preferences.

The research outcomes showed that factors related to the environmental, social, and governance had a positive and substantial influence on investment decison in Nepal. Among the three, governance had the highest impact, then came social and environmental factors, which imply that good ESG practices stimulate the Nepalese investors' making of investment decisions that are more responsible and less reactive.

This study gives practical directions to investors, regulators, and companies in the future by pointing out the necessity of the integration of ESG factors into the investment strategies. It strongly suggests raising awareness and acceptance of the ESG practices as a means to bring about sustainable investment in Nepal. In the theoretical sense, it also helps to comprehend how ESG considerations are intertwined with investment behavior.

Keywords: Environmental factor, Social factor, Governance factor, Investment decision, ESG investing

CHAPTER I
INTRODUCTION

1.1 Background of the Study

ESG (Environmental, Social, and Governance) factors have gained great importance in modern investing as they not only reflect the sustainability values but also point to the companies' ability to succeed in the long run (Paranita et al., 2025). The environmental dimension is concerned with issues like carbon emissions management, using renewable energy, responsible waste disposal, and protecting ecosystems (Fulton, 2017). In general, investment firms that are very good at managing environmental risks are regarded as more capable of surviving in the uncertain global economy and especially during the times of sagging environmental regulations (Ahmad et al., 2024). Moreover, investors tend to interpret strong environmental management practices as one of the most important indicators of large future risks that could affect the sustainability of the business (Huang et al., 2018).

Sustainability has emerged as a pivotal issue in different sectors and particularly in investment. (Al-Hiyari, et al., 2023). The ESG factors have transformed from being merely sustainability indicators to strategic elements with great significance that the investors' decision is deeply influenced by (Paranita et al., 2025). Not only does ESG showcase a corporation’s commitment to environmental responsibility and social good, but it also serves as a yardstick for long-term performance, as the company is taking care of various non-financial risks, such as reputational and operational difficulties. The investors are gradually of the opinion that companies skilled in handling ESG issues tend to be more stable during economic downturns, encourage innovation, and create a value that lasts (Ahmad et al., 2024).

Investment decisions require predicting future results and at the same time considering present sacrifices (Gveroski & Jankuloska, 2017). The process of investing requires individuals to evaluate potential returns while assessing related risks. The situation becomes extremely challenging because the company emphasizes profit generation while disregarding its sustainable activities and environmental impacts and social commitments. The investors should evaluate their appraisal criteria according to Park and Jang 2021

because they need to assess both financial returns and a company's ability to last in business and environmental protection efforts. Environmental Social and Governance (ESG) factors enable investors to better manage their investment risks while they work toward sustainability goals that create advantages for everyone involved in the process.

The current times show a clear shift away from traditional investment methods which evaluate performance through financial gains only because of the growing importance of environmental social and governance ESG factors. This is seen by Mehwish et al. (2022), who note how the investors as well as companies are switchingover to the comprehensive view. The whole scenario has changed in such a way that the company's value is no longer measured only by the financial indicators but also by its commitment to sustainable development, social responsibility, and ethical governance. Almeyda and Darmansya (2019) have given a detailed account of these matters and found out that the embracing of ESG norms has come to be considered as a key factor in judging a company's impact on society and its adherence to moral principles.

When assessing a company's sustainability and future, environmental aspects are very much part of the evaluation. These comprise the company's activities with respect to natural resources (for instance water, forests), emissions, waste management, and energy use. Due to the increase of environmental consciousness all around the world, the corporations are confronted with the ever-growing expectations of the society to cut down on carbon emissions, effective use of water, and reducing damage to nature and biodiversity (Chouaibi et al., 2022). Investors never take their eyes off the way companies try to solve these problems because they are well aware of the connection between environmental destruction and climate change risks. Those firms that act in a way that exhibits great environmental concern tend to have a positive image in the eyes of the investors as they seem to have a better grip on the changes in regulations and the market trends.

When considering possible investments, aspects of society have a similar level of importance for the investors. This is about a company's relations with all the people who have a stake in the company, such as its employees, customers, suppliers, and local communities. Social responsibility has become one of the main factors that influence investment decisions, which is an indication of the growing awareness of the social

impacts of business operations (Zhang & Liu, 2022). Investors show a preference towards companies that are committed to diversifying the workforce, ensuring fair treatment and inclusion, providing employee perks, and generally supporting the communities where they operate (Sultana et al., 2017). The corporations that are committed to socially responsible practices are often considered to be more adaptable and to have better chances of attracting employees, getting their brand image strengthened, and gaining customer loyalty.

The governance factors function as essential components which assess both the organizational structure and ethical conduct and operational processes of the business. The framework of good governance establishes three fundamental principles which create the foundation for organizational success and financial sustainability (Chouaibi et al., 2022). Investors value governance because it enables them to evaluate how companies manage risks and make investment decisions based on their assessment of risk management and decision-making processes and shareholder interest alignment. Investors consider companies with strong governance systems to be more capable of managing risks while preventing conflicts of interest and maintaining ethical conduct, which enables these organizations to achieve market approval.

Both institutional investors and retail investors now consider ESG factors as essential criteria during their investment process. Institutional investors who manage pension funds and asset managers have adopted ESG issues as their primary focus because these investors need to demonstrate their market credibility while proving their ethical standards (Meher et al., 2020). Individual investors use ESG as one of their main criteria which pushes them to find sustainable investments that meet their environmental and ethical requirements. Investors consider companies with outstanding ESG performance as valuable investment prospects because they think these companies are better equipped to manage market changes and business risks (Karmacharya, 2023).

There are several ways to apply ESG investing in Nepal. One of the methods is negative screening, which means that companies in controversial sectors or activities are excluded. On the other side, positive screening concentrates on choosing companies with good ESG performance. The best-in-class strategy picks the best ESG performers from each and every industry, while thematic investing is concerned with particular issues such as

renewable energy or gender equality. Impact investing tries to finance projects that yield measurable social or environmental benefits. Incorporating ESG factors into the traditional financial evaluation process is also part of the ESG integration approach. The Nepali investors and fund managers are increasingly resorting to these methods in order to have their portfolios mirror the practices of sustainable and responsible businesses (Tax Consultant Nepal, 2025).

Nepali investors find ESG investing to be very important for different reasons, among which one is that it helps to manage risks by recognizing possible financial threats connected with ESG issues. The companies that observe solid ESG practices are more likely to be the ones that will experience long-lasting and sustainable growth. Moreover, this investment strategy does not contradict but rather coincides with Nepal's national sustainable development goals. Investors can not only have a good image but also play a role in bringing about positive social and environmental changes by backing the responsible companies. Additionally, with the evolution of ESG regulations, the investment in the companies that are compliant with the regulations will be a way out of the regulatory risk (Tax Consultant Nepal, 2025).

This research was particularly concerned about the interaction of ESG factors with the investment decisions of investors in Nepal and were investigating in what way environmental, social, and governance factors are influencing the choice of the investors in the local market.

1.2 Problem Statement

The increasing focus on sustainability worldwide has not affected the behavior of a number of investors, who still take ESG factors into account rather rarely when investing (Vaidya, 2021). The situation is such that in addition to the non-financial nature of the ESG indicators, they are gradually getting acknowledgment as essential signals of corporate value; however, their involvement in the investment decision, especially in developing markets, is still minimal (Park & Oh, 2022). This disconnect reveals a difficulty of the economic sector in terms of the incorporation of sustainability into the investment strategies.

ESG integration faces a lot of difficulties mainly because there are no globally accepted standards and evaluative measures (Sultana et al., 2018). Investors without appropriate guidelines and reporting systems are unable to make decisions that not only conform to their sustainability beliefs but also are alternatively, companies may take advantage of this situation to mislead investors into believing they are environmentally friendly when, in fact, they are not (Zhang & Liu, 2022). Solving these problems will take a radical reorganization of the investment industry, which will be of great value as it will magnify the worth of sustainable practices and ethical governance even though this means directly opposing traditional profit-centered approaches (Chaudhary et al., 2024).

In Nepal, the majority of the investors pay attention primarily to technical analysis for the purpose of short-term trading and fundamental analysis of the listed companies while their ESG factors by and large get overlooked (Vaidya, 2021). On the one hand, macroeconomic factors exert mixed effects on the decision-making process, while, on the other, environmental concerns emerge as stronger drivers than economic issues in shaping investor sentiment towards ESG stocks (Raut et al., 2023). This indicates that the awareness of sustainability issues among investors in Nepal is increasing but not uniformly. The study's research questions are:

1. What is the perception of investor on ESG factor when making investment decisions in Nepal?
2. What is the relationship between ESG factors and investment decisions in Nepal?
3. What is the impact of ESG factors on investment decisions in Nepal?

1.3 Objectives of the Study

The objective of this study are as follows.

1. To examine investors' perception of ESG factors when making investment decisions in Nepal.
2. To analyze the relationship between ESG factors and investment decisions in Nepal.
3. To assess the impact of ESG factors on investment decisions in Nepal.

1.4 Research Hypothesis

Hypothesis 1 (H_1)

There is a significant impact of environmental factors on the investment decisions of investors in Nepal.

Hypothesis 2 (H_2)

There is a significant impact of social factors on the investment decisions of investors in Nepal.

Hypothesis 3 (H_3)

There is a significant impact of governance factors on the investment decisions of investors in Nepal.

1.5 Rationale of the Study

This study carries high significance to a range of stakeholders. The government is one of the stakeholders who considered this study highly important for various reasons. Regulatory measures that support sustainable investment can be formulated with the help of understanding the role of ESG factors in investment decisions. Consequently, the government can create a lasting and powerful economy by directing investments towards the environmental, social, and governance areas that are being protected and developed, respectively.

The investors, mainly those operating in the financial markets of Nepal, should have strong insights about the impact of ESG on investment decision making. They would then be able to pick the right option with the simultaneous achieving of financial returns and being in harmony with the ethical standards and long-term sustainability. The company will implement its ESG strategies to develop sustainable business operations that provide advantages to the local community.

The research on ESG factors in Nepal shows that these elements have the greatest impact on investment decisions for researchers in this field. The study shows that empirical data and theoretical perspectives demonstrate ESG effects on investment behavior which creates new knowledge for sustainable finance research and academic research about sustainable development and financial practices.

The research results deliver benefits to students who pursue studies in finance and economics and related disciplines. Students will acquire essential expertise which enables them to make investment decisions through ESG understanding because this knowledge empowers them to work as responsible decision-makers who consider social and environmental consequences in their work.

The educators can likewise take the results of the study and use them in their courses which would make teaching about sustainability finance concepts and practical applications more effective. This method makes students more aware of the fact that the economic, social, and environmental factors are all interconnected and that they together determine the outcome of the investments.

The study about the role of ESG factors in investment decisions in Nepal has provided a large number of governments, policymakers, investors, researchers, students, and academics with valuable insights. By revealing the connection between ESG factors and investment behavior it fosters the development of sustainable and responsible investing which in turn leads to the overall improvement of the economy, society, and environment in Nepal and other countries.

1.6 Limitations of the Study

The following were the limitations of study.

i. In the study, respondents' bias and inaccuracies of self-reported responses could be primary data sources.
ii. The sample consists of 385 investors, which may not cover the entire investor population in Nepal.
iii. Only a limited number of variables were considered in this research, thus possibly neglecting other factors which are also very significant in influencing the investment decision.
iv. The method of convenience sampling is used here, which can lead to the introduction of bias in selection and the restrictions placed on generalization of the results.
v. Kathmandu Valley is where the researchers have limited their study, which may have left out investors' opinions from other regions of the country.

CHAPTER II
LITERATURE REVIEW

A literature review of research study represents a thorough assessment of the body of knowledge which is already there concerning the research topic. One of the first steps in this process is the review of the main concepts and terms in order to make a clear presentation of the subject matter. The process continues with an analysis of past articles, journals and studies, searching for what has been already done and what has been found out. Along with this, the review discusses the relevant theories that support the research framework. In the end, it reveals the research gap through the identification of the areas that have not been adequately covered, which in turn, justifies the need for the current research.

2.1 Conceptual Review

2.1.1 ESG Investing

ESG investing has become a contemporary method of making financial decisions that recognize not only the usual financial indicators but also a company's environmental impact, social responsibilities, and corporate governance quality. This way of investing is similar to the previous one only in the sense that it first assesses the company's performance in terms of controlling its carbon footprint, its relationship with the major investment community that comprises employees and local people, and its governance in terms of being honest and exhibiting good conduct. The environmental aspect consists of evaluating the company's eco-friendliness, consumption of energy, and disposing of waste. Social considerations include globalization of labor, community building and support, customer service, and privacy issues in online relations. Corporate governance, on the contrary, is concerned with the very structures of the company, the independence of the boards, the paying of the top executives, and the participation of shareholders. The unifying of these elements gives the investors a broader and more reliable picture of the market that leads to the quality of investments produced being increased and the risk of long-term loss decreased (Pastor, Stambaugh, & Taylor, 2022).

Over the past few years, the incorporation of environmental, social, and governance (ESG) metrics into investment approaches has become very popular, since investors are

more and more wanting to have their financial goals in tune with the good of society and sustainability. The evolving market has been drawing investors' attention mainly because of the argument that companies with solid ESG activities are the most capable to bear external shocks like regulatory actions or facing loss of reputation. Thus, they would attract more stable dividends. For this reason, ESG screening works hand in hand with other financial tools by disclosing the hidden risks and overpricing in the market that are not visible through the earnings statements (Pedersen et al., 2021).

ESG investing, besides its benefits in risk mitigation, can be seen as a means of promoting good corporate conduct and bringing about a sustainable economy. By putting money into companies that give importance to their impact on the environment, society, and governance, the investors become a vital part of the process of making the world economy more inclusive and stronger. For instance, funds aligned with ESG principles saw even during the financial crisis caused by COVID-19 a flow of money that was more than the usual, which showed that investors prefer resilience and ethical behavior when the situation is tough (Pastor & Vorsatz, 2020). Furthermore, the investors are becoming aware that the businesses that follow the ESG path are likely to have better customer retention, higher employee satisfaction, and easier access to financial resources which all would amount to a contribution to profitability in the long run.

The impact of ESG investing is further highlighted by the growing public demand for sustainable practices and the regulatory interest in it. When the checks on corporate behavior become more stringent, the companies will have to implement more sustainable measures to keep their competitors and more so, the investors' trust. Hence, ESG investing becomes a win-win situation by making financial returns and at the same time promoting environmental and social progress. As per Kräussl, Oladiran, and Stefanova (2024), the reasons for investing in ESG are increasingly a mixture of ethical concerns and financial expectations thus, implying that sustainability is not only a moral concern but also a strategy now. This dual focus makes ESG investing a revolutionary force in contemporary finance, changing the way capital markets bring about global prosperity.

2.1.2 Six Principles of ESG Investing

Reynolds (2017) states that institutional investors must act in the long-term interest of their beneficiaries. It is recognized that the environmental, social, and governance (esg)

factors might affect the investment outcomes in the long run, although there are differences among the industries, regions, asset classes, and time frames in terms of the influence they have. The application of these principles, besides, could harmonize the investment practices with the society's wider ambitions. Investors, as per their fiduciary responsibilities, are encouraged to adopt six main principles:

- Principle 1 is about taking esg issues into consideration through the whole investment process from evaluation to decision making.
- Principle 2 proposes responsible ownership by giving priority to esg issues in the ownership tactics.
- Principle 3, in a way, demands the companies that the investors have a stake in to make ESG-related disclosures in a transparent manner.
- Principle 4 advocates the spreading and embedding of these principles not just in the investment sector but also beyond it.
- Principle 5 is about investors joining hands to bring about better and more effective implementation of the principles.
- Principle 6 pledges that investors will be open about their activities and the progress made in principle application on a regular basis.

The principles above serve as a beacon to investors guiding them through the difficult terrain of balancing their fiduciary obligations with sustainable and ethical investment practices.

2.1.3 Environmental Factor

The ecological aspect includes different factors which show how companies are engaging in and taking a part in the nature around them. The last few years have seen a great increase in the awareness of the public around the world concerning the environment, which has led organizations to take the ecological issue very seriously and to make it part of the very core of their operations. For instance, protecting ecosystems and dealing with the effects of climate change have become the main issues through which sustainable business practices and future investment decisions are formed (Efimova, 2018).

The corporate world sees it as a dilemma with climate change being the toughest of the challenges. Humanity is experiencing drastic changes in temperature with the corresponding effects being beyond just the environmental sphere. According to the

companies, the operational risks involved with the changing climates are indirectly natural disasters, rising sea levels and difficulties in transportation. According to Eccles et al. (2018), the climate threats that companies are facing will not only result in less destruction but also give them a chance to tap into the innovations that come along with the adoption of renewable energy and green technology. This, in turn, will make the firm more resilient in the long haul.

Energy consumption is one of the major concerns that come under the ecological issue that companies have to tackle. There is an upward trend in the global demand for energy and at the same time, companies are being urged to not only cut down their power consumption but also to switch to green energy sources (Efimova, 2018). The improved energy performance allows the companies to reduce greenhouse gas emissions, manage costs and remain in the competition. Businesses applying the latest energy efficiency measures generally see both sides of the coin, i.e. there is an improvement in the financial performance and eco-friendliness of the company (Przychodzen et al., 2016).

The careful management of natural resources is one of the main aspects of environmental stewardship. particularly considering that the companies will have finite access to raw materials, it is a must for them to take on the strategies for their sustainable utilization. The mentioned strategies include both procurement methods and complete resource management together with their associated waste disposal practices (Efimova, 2018). Responsible environmental input management practices ensure operational continuity while protecting natural resources from ecological impacts.

The main element of environmental protection efforts works through pollution control methods and the process of waste disposal. The huge waste production and rising pollution levels together represent two dangers which threaten both ecosystem existence and human survival. Modern businesses need to establish recycling systems while implementing emission control measures to achieve their environmental sustainability goals. Companies that implement effective waste reduction strategies. The reduction of waste helps businesses to maintain public health standards while they assist in environmental restoration efforts (Efimova, 2018).

The third point of environmental management shows that environmental organizations need to protect all animal and plant species their work. Biodiversity loss creates two different results because it generates an environmental threat and it prevents people from doing activities that depend on nature (Przychodzen et al. 2016).healthy ecosystems provide essential raw materials which multiple industries need to operate their business activities. The organization achieves sustainable growth by conserving essential benefits through its conservation program activities.

2.1.4 Social Factor

The social factors which shape an organization's community relations show multiple methods which organizations use to interact with their local areas. The various ways people assess a company according to its commitment to human rights and community involvement and employment standards and customer protection define its public image and societal function (Aich et al., 2021). The current world demands that businesses take responsibility for their actions because stakeholders expect companies to fulfill their ethical duties which create significant impacts on individuals and communities.

Social responsibility requires organizations to implement measures which stop human rights violations from occurring. Organizations need to create connections with their employees and customers and suppliers which honor human dignity while enabling people to make their own choices (Srivastav et al., 2024). The company needs to maintain its reputation because any violations will lead to legal consequences. The implementation of human rights values throughout a company environment supports ethical business management and sustainable operations according to Srivastav et al. (2024).

An additional significant factor is the way companies deal with the surrounding people. The enterprises influence the people living around them and the community groups. One of the ways to strengthen local relationships is through open communication with the residents, investing in social projects, and taking care of the issues reported (Srivastav et al., 2024). Building understanding and trust with the local partners creates goodwill and helps the business to operate more easily.

Social factors include also workforce policies. Fair treatment is taken for granted by businesses which guarantee safe working environments, equal pay, and training. The

approach towards staff development, equity, and inclusion uplift the workforce's motivation, retention, and total productivity (Aich et al., 2021). A friendly work environment also makes the company more attractive to future employees.

Meeting customer demands is another social duty. Consumers expect to be treated with value and reliability, which leads to loyalty and better position for the firm in the market. Companies that put customer satisfaction first reap a stronger brand loyalty and higher repeat sales (Srivastav et al., 2024). Therefore, staying focused on customer needs is essential in the present-day competitive marketplace.

It is also very important to secure product reliability for the sake of the consumers. The manufacturers that provide safe and compliant products not only contribute to the welfare of the society but also increase the trust towards their brands. Responsible companies spend money on rigorous checking, keeping up with the regulations, and reacting fast to the safety problems (Li et al., 2023). These actions are both an indication of their being responsible and a strong commitment to protecting consumers.

There is empirical evidence that indicates that companies that put social performance on top of their agenda reap several strategic rewards. Good internal relations, a mix of different team members, and a loyal customer base - all these factors help the company to attain better operational and financial outcomes which are also the resilience (Srivastav et al., 2024).

2.1.5 Governance Factor

The governance issues of an organization determine its design and operational management processes, which create both operational competency and leadership effectiveness and market competitiveness. Responsible management systems consist of institutional arrangements and leadership models and internal processes, which together create their core structure. Their major goal is to facilitate the raising of ethics, transparency, and accountability to the highest levels of decision-making in the organization (Hawn & Ioannou, 2016).

Governance's most significant thought is corporate surveillance, which includes the rules, customs, and controls that are dominant in a company. Strong governance frameworks

allow the organization to be in sync with its different stakeholders, such as shareholders, workers, customers, and the society at large (Eccles et al., 2011). Taking part in good conduct, risk management improvement, and authoritative leadership creation are some of the benefits that these systems bring along.

The variedness of governance key features is the efficiency and effectiveness of the board of directors. A competent and independent board is the main factor determining the monitoring of executive choices and the shaping of the company's overall strategy. Based on research findings, it is shown that boards consisting of diverse-skilled and independent-personality members are more capable of critically analyzing management's decisions and providing strategic recommendations (Hermalin & Weisbach, 2011). In addition, the presence of non-executive members helps to guarantee that the board functions in the interest of the investors and also reduces the occurrence of conflicts of interest.

Furthermore, the supporting mechanisms that are involved in shareholder participation and the strength of their influence on management accountability are equally critical. The practice of strong governance confirms that the rights and the proper channels for investors to express their concerns, participate in corporate decision-making, and acquire related information about the organization’s performance are all provided to them. Access to shareholders’ meetings, ongoing information about company’s strategy, and open communication with the management would all be part of that (Shleifer & Vishny, 1997). Engagement methods such as annual meetings and investor briefings highlight the participation of all stakeholders in decision-making and help build trust between the parties involved.

The division of executive remuneration particularly that of the CEO, is another issue that frequently appears in the discussions about corporate governance. The manner in which top executives are paid has a direct effect on their motivation and the direction of their strategic thinking. Good governance practices suggest that the agreed remuneration should be aligned with the corporation’s long-term objectives and should be based on measurable performance. Pay ratios that are too high, not justified by the company’s results, may lead to a situation where the interests of the managers are opposed to those of

the shareholders, thus raising the issues of justice and sustainability (Bebchuk et al., 2009).

2.1.6 ESG and Investment Decision Making

Environmental, social, and governance factors (ESG) have grown to be an integral part of contemporary investments evaluator, due to the recognition that non-financial aspects are majorly responsible for a company's sustainability and success in the long run (Khan et al., 2016). The investors who incorporate such dimensions into their evaluations can take more tactically oriented decisions, which to a greater extent would not only be financially rewarding but also ethically and gradually accepted (Srivastav et al., 2024).

Businesses now pursue ESG principles because they must protect their profits while maintaining human resource requirements. The trend of companies adopting corporate responsibility practices shows that organizations now understand their association with financial sustainability (Sultana et al., 2018). Companies which achieve complete environmental social and governance ESG compliance demonstrate their ability to manage all risks while generating sustainable returns to their stakeholders. The incorporation of ESG factors into investment decision-making processes shows multiple advantages according to research conducted by Khan et al. (2016). The studies demonstrate that financial systems which use traditional methods for risk assessment achieve operational benefits when organizations implement risk elements which they commonly disregard. The evaluation process that uses ethical governance and social responsibility and environmental stewardship methods allows investors to understand how organizations will perform in the future.

The evaluation process which centers on ESG factors provides organizations with two key benefits because it helps people understand their corporate values and their environmental impact. The traditional financial indicators fail to assess various organizational aspects which include corporate integrity and employee relations and environmental issues and the organization's positive social results. ESG research functions as an active research tool which investors use to investigate the elements that shape brand reputation and market performance (Srivastav et al., 2024). Moreover, ESG metrics identify corporations that are willing to take on global challenges such as climate change, resource scarcity, and shifting customer behavior. Firms that are quick to adapt to

these changes are usually more remarkable and thus more likely to survive. Such firms will not only improve the chances of financial returns but also create larger social and environmental benefits when they have the support of the investors (Sultana et al., 2018). Nevertheless, the ESG integration is getting the broadest recognition but there are still the hurdles to its full adoption (Khan et al., 2016). The ESG reporting inconsistency and the non-existence of globally accepted measurement standards are the major problems because they make it difficult to compare companies. The irregularity of reliability in available ESG data adds another dimension of uncertainty to investment decisions. Some investors overestimate the negatives of ESG strategies on financial results during the short period. There is an argument that the sustainable and ethical targets' integration will lead to lower profits; however, the opposite is proved by the research which shows that companies with solid ESG practices often exceed their non-ESG competitors in the long run hence, there is a possibility of getting the financial benefits along with the right practices (Khan et al., 2016).

Including ESG factors into the investment decisions is a sign of a different more advanced approach linking up the three elements that are profitability, ethical corporate behavior, and society's welfare (Khan et al., 2016). Through this integration, the investors would have the capability to place their portfolios not only according to their values but also to the future-based financial goals (Srivastav et al., 2024). The obstacles of full ESG integration may be there but still, the benefits of risk reduction, better long-term results, and support for sustainable development make it a valuable asset for the socially responsible investing strategies.

2.2 Theoretical Review

2.2.1 Stakeholder Theory

Stakeholder theory is viewed as one of the main principles in corporate governance and management of organizations, where it says that companies should not only make profits for their investors but all the parties involved. The theory was presented first by Rau and Yu (2023), who emphasized that it is necessary to take into account the conflicts and needs of different stakeholders that are involved in a company, which are customers, suppliers, employees, community, etc, during the making of decisions. Stakeholder theory, by acknowledging the interabaided relationships between an organization and its

different stakeholders, has, in fact, turned out to be a more comprehensive approach than the traditional ones that simply seek to maximize shareholder returns (Freeman, 2023).

The very essence of stakeholder theory is seen as organizations possessing find a way to balance the needs of all stakeholders who suffer from their actions. This method is in contradiction to the shareholder model that mainly directs attention to the financial gains of shareholders. When companies start implementing stakeholder theory, they are telling us to create value for a much bigger group that consists of not just shareholders but also workers, customers, suppliers and, most importantly, society.

One of the main tenets of stakeholder theory is the understanding that stakeholders have different interests and expectations that need to be properly addressed by the companies. According to Kamal (2021), the theory consists of two main dimensions: the positive and the normative branches. The positive, or managerial, branch is concerned with the practical side of managing stakeholder relationships and thus advocates for the fair and just treatment of everyone involved. On the other hand, the normative, or ethical, branch makes the moral obligations towards the stakeholders of the organization its central focus, in this way acknowledging their basic rights and legitimate claims.

Organizations that are following the positive side of stakeholder theory are at least partly encouraged to implement management practices that would lead to greater engagement and cooperation with stakeholders. This implies the recognition of the major stakeholders the understanding of their concerns and priorities and the incorporation of their opinions into the firm's decisions (Mahajan et al., 2023). The process of stakeholder involvement requires people to participate in direct activities which help organizations create trust between their partners and their partners while improving their reputation with the public. Organizations that use stakeholder management techniques achieve better business outcomes because their stakeholders support them when they show real commitment to fulfilling stakeholder requirements. Stakeholder theory contains normative elements which specify that companies must perform their activities according to established ethical standards. Stakeholders possess the authority to demand that companies maintain fair treatment while disclosing complete information about their rights. The practice of ethical stakeholder management requires organizations to go beyond legal requirements because they must maintain moral standards throughout every aspect of their business

operations. Organizations must first assess existing power dynamics before developing measures which safeguard disadvantaged groups and advance fair treatment and equal rights according to Freeman (2023).

2.2.2 The Theory of Compounded Returns

The idea of compounding returns may underscore ESG's integration as a major component in evolutionary changes in the investment settings. It is totally different from the perception that ESG is just an additional option or consideration, the theory puts it as a major driver of value that is going to last. When businesses take up environmental, social, and governance principles as a part of their mission, they trigger a cycle where the outcome of each positive gets the next one improved. For instance, the companies that focus on environmental issues are likely to increase their efficiency, thus reducing their costs, and making it easier for them to deal with regulations. As a result, these firms will attract more investors who are concerned with ethical and sustainable investment practices (Lienau, 2020). The approach not only brings about better financial results but also adds to the company's reputation in the market, allowing the company to gain more customers and maintain its position in the industry as a leader.

The integration of ESG has a long-term impact on the companies' profits and it also brings about many other benefits. In fact, the companies that treat governance issues properly and are socially responsible are more likely to attract skilled workers; the latter are increasingly appreciating the alignment with their private values and beliefs (Lienau, 2020). Moreover, the acquisition of the best people gives companies the power to be creative and quick in their reaction to the changes of the market. While firms with an ESG orientation are gaining profits, their access to capital and ability to meet consumer needs are also growing, thus creating a positive feedback loop which strengthens their superiority. Eventually, this cumulative effect causes a very big difference between the companies that are prioritizing ESG and the others that are not, thus changing the whole investment situation. Therefore, the compounded returns theory shows clearly how the adoption of ESG can produce a huge impact on the industry and set new standards for what is successful and sustainable in business practices (Lienau, 2020).

2.2.3 Skeptical Theory

Skepticism about ESG investing was at one time a widespread theory among the great majority of financial professionals who thought the easy-hot trend of investing in ESG funds was nothing more than a huge buzz with little or no real value being created. Dramatizers of this viewpoint take as a reference market-ups before, that later on, did not sustain the momentum of gullible buyers and that ESG longevity would last only until the corner of the street which they could not return back like they would be able, e.g. by leaving new hype surrounding them. Moreover, the naysayers are raising eyebrows around the marketing intent behind ESG taking the baby out of the marketing basket and hence exposing it as devoid of being an indicator of real access to financial gains (Horty et al., 1990).

In spite of the free thinkers' challenge, the authentic data goes in the opposite direction this time around. A far-reaching investigation conducted by Morningstar, which scrutinized 4,900 funds in Europe, showed consistently the same situation of ESG concentration strategies performing better than non-ESG hotspots at different times. The plentiful proof taken by the above-mentioned study is not only the reversal of the presumption that ESG investing is nothing but a passing fashion but also the highlighting of the very important role of ESG in the realization of an investment return. The skeptical view which was at least partially valid is now unprotected due to the increase in empirical support for the triumph of ESG integration. The more the investor places the criteria of ethics and sustainability they are actually downplaying the skeptic theory, which signifies a transformation in the investment paradigm (Lienau, 2020).

While skepticism still regards ESG as a hype that will eventually fade, the mounting evidence of its benefits remains on ESG's side (Lienau, 2020). Nevertheless, with a growing pool of research backing the argument that sustainable investment practices have come to stay, the influence of the opposing view is likely to shrink and hence, give ground to more developed viewpoints that appreciate the large-scale influence of sustainable investing.

2.2.4 The Nice to Have Theory

Supporters of the "nice to have" theory, unlike the skeptical perspective, admit that ESG factors can have a beneficial impact on businesses, but they question the degree to which

they can be the cause of value creation. They argue that the adoption of ESG practices might be rewarded with some slight advantages, but these are not substantial enough to materially impact the results of the investment (Lienau, 2020). Thus, ESG factors are viewed as secondary elements in investment strategies, advantageous additions but not the main factors of performance (Lienau, 2020).

The position fails to recognize that ESG integration serves as a fundamental requirement for companies to maintain their operational existence and their ability to pivot toward new market opportunities. Theoretical supporters treat ESG as an optional business component because they fail to recognize its critical role in directing organizational strategies. ESG factors do not produce financial outcomes by themselves but they serve as essential elements that protect corporate reputation while companies manage risks and develop long-term sustainability in a world that becomes more complex (Lienau, 2020).

The "nice to have" theory supports ESG factors as beneficial business elements yet it questions their potential to generate business value according to the skeptical viewpoint. The study shows that organizations which execute ESG practices gain minimal advantages which do not create sufficient impact to alter their investment performance results (Lienau, 2020). The research shows that investors consider ESG factors as secondary elements in their investment process because these factors provide them with additional benefits which do not impact their primary performance indicators (Lienau, 2020).

The existing position does not understand the essential importance of ESG integration which companies need to sustain their operations while building new abilities throughout their existence. Theoretical proponents of the theory view ESG as an optional component which they consider non-essential to their process of creating corporate strategies. ESG factors by themselves do not guarantee financial success but they serve as essential elements which protect corporate reputation and enable effective risk management while building enduring strength in today s complex international market (Lienau 2020).

2.3 Empirical Review

Fadhlurrahman and Sar (2025) analyzed about the relationship between environmental, social, and governance (ESG) practices and investment decision-making. The review

included 30 articles from Scopus and Emerald published between 2018 and 2025. The main purpose was to clarify the role of strategy execution in obtaining competitive advantage, especially when referring to the VRIO model of the Resource-Based View (RBV) theory. As per the outcome, 96.7% of the cases recorded the successful execution of an effective strategy which was supported by the RBV theory that came up the most among the theories used. Among the internal resources the adoption of unique ones like digital capabilities and service innovation mainly in the manufacturing and digital economy sectors were noted to be the most important factors in gaining a competitive edge. Planning-execution gaps and resistance in the organization particularly in small and medium-sized enterprises (SMEs) were mentioned as challenges. The authors also brought in the dynamic capabilities theory to handle the disordered market environment's complexity. The implication for practice was that data-driven strategic management and ecosystem-based collaborations should be the new approach for companies. The authors have made a contribution to the review of the literature through multidisciplinary synthesis and have mapped a future research agenda that is directed at strategic adaptation in developing countries.

Setiyaningsih et al. (2025) evaluated the analysis of the ESG score as a method of investment decisions and sustainable growth through the use of qualitative descriptive methods. The main objective was to that ESG principles and issues surrounding them, especially the greenwashing practices, where companies claim to be more sustainable than they see, thus, inflating their ESG scores. Despite the fact that the ESG scores are intended to measure sustainability in a very comprehensive way covering environmental, social, and governance aspects, many organizations still do not understand these principles very well, thus, resorting to misleading practices which, in turn, are contrary to the true ESG values. The review pointed out the growing doubt about the reliability of ESG scores in providing an accurate picture of sustainable development.

Bhandari (2025) studied how investors in the Asia-Pacific region evaluate ESG factors during their investment decision-making process. The researchers conducted a systematic review which analyzed 20 published works found on JSTOR and Google Scholar through their use of the PICo method and PRISMA guidelines. The researchers sought to study how ESG integration evolved throughout different time periods while they required information about its implementation drivers and ESG integration impact on risk

management and investment outcomes in Asia. The research results showed that investors changed their investment habits from ethical and socially responsible investment methods toward comprehensive investment frameworks which evaluate financial performance and environmental sustainability and social equity. Investors considered governance factors to be most important because they needed to evaluate board independence and transparency during their decision-making process. The researchers discovered that regional climate change impacts and social inequality and population density combined to create essential elements which determined ESG priority areas in the region. The study proved that ESG integration serves as a sustainable investment which enhances risk management while producing greater financial returns because it enables companies to conduct their business operations through environmentally sustainable methods. The research demonstrated that multiple problems remained unresolved because ongoing challenges arose from geographic differences combined with standardization deficiencies and asymmetric information problems.

Kräussl et al. (2024) investigated how investors evaluate ESG investments based on their financial performance and social benefits. The review integrated equilibrium model theory which explains how different types of investors value ESG investments. Research shows that green investments typically generate lower long-term profits when compared to non-ESG investments. The evidence showed strong support for ESG investments because most investors preferred this investment type and their engagement with ESG investments would produce positive social outcomes. The research demonstrated that companies which adopt sustainability strategies will experience enhanced market value and reduced financing expenses because investors prefer environmentally friendly companies. The study has started a big discussion about how ESG investments create complex financial and social trade-offs while showing that investor behavior drives companies to adopt sustainability practices.

Juthi et al. (2024) investigated how Environmental Social and Governance data affects both corporate financial results and investor decision making. The initial screening process examined 1,200 articles but researchers selected 70 peer-reviewed studies for complete examination. The research study investigated how ESG scores relate to financial returns during periods of market stress which included the pandemic. The researchers used systematic review methods to establish that organizations with high ESG ratings

achieve better financial results over extended periods. The authors found that companies with strong environmental social and governance practices especially their environmental sustainability and governance systems achieved superior risk management abilities and financial protection. The results showed that various sectors and regions developed distinct environmental impact patterns which affected high-risk sectors while companies operating in areas with strict ESG regulations demonstrated excellent performance. The research established that AI and machine learning technologies increasingly enhance ESG data analytics capabilities yet social and governance measurement standardization remains a major challenge. The researchers argue that organizations will need to conduct additional longitudinal research studies to understand how ESG factors impact both corporate sustainability and investment practices over time.

Ali and Selvamani (2024) conducted their study about the challenges which ESG elements face when they get integrated into sustainable finance by investigating the changing conditions of the Indian market. The researchers aimed to achieve two objectives which aimed to discover main research gaps that hinder effective ESG implementation while they built workable solutions. The researchers discovered various problems through their literature review and empirical study synthesis and case example analysis which included missing standard ESG reports and financial impact evaluation obstacles and insufficient data and uncoordinated incentive systems and regulatory challenges. The authors recommended two solutions to solve these problems which involved using precise ESG assessment techniques and technological solutions that improve data accuracy while developing incentive systems which support extended objectives and evaluating existing policy frameworks. The research showed that Indian companies which maintain strong ESG practices receive increasing recognition for their operational durability and capacity to achieve long-term success amid changing regulations and growing investor knowledge. The research established that filling these gaps serves as essential foundation for sustainable finance which will also impact investment performance in emerging markets such as India through positive ESG developments.

Marliani (2024) investigated both the challenges and the opportunities which arise from applying Environmental Social and Governance ESG criteria to investment decision-making. The researchers studied which factors maintain sustainable investing practices

while they studied which factors prevent effective implementation of ESG practices. The research demonstrated that ESG integration enables investors to achieve multiple sustainable investment advantages because of major existing obstacles which include challenges with ESG data reporting. The research demonstrated that conventional accounting systems encounter difficulties when they try to process ESG data which mainly consists of subjective and forward-looking data. The obstacles prevent investors from conducting accurate evaluations of ESG elements during their investment evaluations. Marliani averted that if these difficulties are not tackled the full potential of ESG in investment planning will not be realized. The study showed that sustainable investing needs multiple factors to succeed because it requires both advanced ESG data and effective reporting mechanisms to deliver responsible investment results.

Khan and Iqbal (2024) studied how companies implement Environmental Social Governance (ESG) standards during their investment decision-making process. Businesses now face growing pressure to demonstrate their dedication to fulfilling obligations toward their shareholders. The researchers conducted their study using qualitative data to investigate their research objectives. The study analyzed how investors currently determine a company's value through its financial performance and its environmental social governance (ESG) compliance which exists beyond mandatory financial statements but affects its market valuation. The authors found that multiple groups showed rising interest in environmental social governance (ESG) standards which included local communities, professional organizations, and regulatory bodies. The researchers discovered that companies had already established environmental social governance (ESG) practices within their fundamental business functions which later became vital business processes for achieving operational performance and market success. The study demonstrates that organizations experience two fundamental obstacles which occur between environmental social governance (ESG) demands and their organizational decision-making framework but organizations which comprehend these elements will fulfill their fiscal targets while securing investment and reducing interest expenses and managing financial risks and increasing shareholder value. The study demonstrates that organizations must implement environmental social and governance (ESG) standards as fundamental governing principles which impact their operational decision-making processes.

Nafisa et al. (2023) studied how retail investors use corporate ESG information for their investment decisions while they investigated how moral awareness affects this process. The research surveyed 599 retail investors from Dhaka and Chattagram in Bangladesh by using both planned behavior theory and norm activation model as its theoretical base. The researchers tested all six hypotheses through analysis using partial least squares (PLS) path modeling and structural equation modeling methods. The results showed that investors preferred to view environmental social and governance factors positively while their moral awareness served as the main element that shaped their decision making process. Retail investors showed five out of six proposed relationships which confirmed that ESG issues matter to their investment decisions. The research showed that corporate ESG activities lead to indirect effects on investor behavior through moral awareness which provides new insights into behavioral finance. The authors recommended that policy makers and corporations need to collaborate through a threefold strategy which includes ESG transparency and investor education and ethical investment practices to establish a sustainable market for ethical investments and economic development.

Husnah et al. (2023) demonstrated that Environmental Social and Governance ESG information affects investment decisions while stating that investment objectives act as a mediating variable which controls this relationship. The research conducted a quantitative survey which included 371 Indonesian stock market participants and used SmartPLS 3.0 for data analysis to show that ESG dimensions produced different results. The Environmental aspect had a strong relation to the investment objectives but a very small direct impact on the final investment decision. The Social aspect was a strong positive factor in actual investment decisions but had a smaller effect on investment goals. The Corporate Governance dimension had a strong impact both on the investment goals and decisions. The researchers discovered that investment objectives functioned as a mediator which linked ESG issues to investment results especially for environmental and governance elements. The study demonstrates that investment processes require ESG standards to be implemented because investment objectives become essential factors during decision-making.

Kulal et al. (2023) investigated how Environmental Social and Governance (ESG) factors affect stock market valuation and investment return calculations. The research study aimed to find out the connection between ESG factors and stock market performance

because this relationship would help investors make better investment decisions. The researchers used ESG scores from publicly traded companies to assess financial market performance. The results showed that companies with superior ESG certifications achieved higher stock values and investment returns compared to companies with inferior ESG ratings. The results show that investors need to assess ESG factors before making investment choices because companies with strong ESG performance will likely deliver superior financial results. The research study functions as a guiding light which assists investors who want to combine their sustainability values with conventional financial evaluation methods.

Cai (2023) explored the relationship between Environmental Social and Governance ESG criteria and their effects on financial environmental risk assessment and investment decision processes. The research aimed to assess how various ESG components impact financial market risks which demonstrated that ESG implementation leads to market advantages. The research conducted literature review and empirical analysis to examine financial environmental risks which included market fluctuations and political and economic changes and climate change challenges. The research showed how organizations use various ESG factors to measure their corporate risk while assessing their business results. The research demonstrates that investment strategies which include ESG factors produce better outcomes for investors over extended periods. The research shows that ESG implementation enhances the ability of investment portfolios to maintain their value throughout extended periods. The research findings supply comprehensive information which supports investors and companies and governments who want to establish sustainable financial markets through ESG integration.

Mehwish et al. (2022) studied how environmental social and governance ESG criteria impact the stock investment decisions of single investors in Pakistan. The research aimed to determine how ESG components affected investor trading behavior in the Pakistan Stock Exchange (PSX) market. The researchers selected 300 individual investors through snowball non-probability sampling until the GPower analysis reached its necessary sample size according to their deductive approach which used theory of planned behavior (TPB) as the basis for their data collection. The researchers employed Structural Equation Modeling (SEM) to investigate how ESG factors influenced the investment decision-making process. The results indicated considerable sensitivity of the investors to the ESG

criteria, with the governance aspect having the most powerful impact on their investment decisions, followed by social factors and the least by environmental factors. The combined impact of the three factors was found to be statistically significant and positively correlated with the investment decisions. Besides, the researchers reported that views related to ESG factors had a strong influence on the investment results. The study indicated a deficiency in earlier research regarding the analysis of non-financial factors from the viewpoint of retail investors, mainly in the finance sector. Shaping of individual investors' beliefs leading to their attitudes and consequently being direct bearing on their behavior of investing was another point emphasized by the researchers. The implications for practice indicated that companies should focus on improving their ESG performance in order to win over more investors, whereas, on the other side of the coin, investors are advised to include ESG factors as part of their investment assessment to protect their capital and attain higher returns.

Twinamatsiko and Kumar (2022) analyzed into the ways in which machine learning techniques could help in the incorporation of Environmental, Social, and Governance (ESG) factors into considerate investment decisions with a focus on companies in the developing markets. Through linear regression and the use of financial performance indicators such as Return on Assets and Return on Equity, the research assessed the effect of ESG disclosure on corporate performance. The results showed that in-depth ESG reporting not only but also encourages firms to be more involved in the corporate social responsibility activities, thus non-financial data of high quality and communication are needed. The study points out that ESG identification is necessary for the management and, thus, the decision-making of corporate investment through the sustainability perspective, particularly in the emerging countries. Furthermore, the use of machine learning techniques provided the study with the opportunity to dig deeper into the issue and find out the very close link between ESG disclosure and financial performance which consequently posed non-financial information as being significant for the adoption of sustainable investment strategies.

Escrig-Olmedo et al. (2022) analyzed the integration of various investor preferences into the process of making sustainable investments with the help of a fuzzy multicriteria decision-making (MCDM) technique. The research centered around the Environmental, Social, and Governance (ESG) criteria and covering the different priorities of both

conventional and socially responsible investors. The authors showed the method's effectiveness through their implementation of fuzzy MCDM methods which used data from the clothing industry to create investment portfolios that matched the specific ESG preferences of different investor groups. The study results showed that different preference options lead to better construction of customized sustainable investment portfolios. The research shows that sustainable investment portfolio development requires consideration of both traditional and socially responsible investment groups when organizations implement ESG criteria.

Islam et al. (2022) studied how environmental social and governance ESG elements affect the investment choices of Pakistani individual investors. The research study assessed how well investors grasp ESG elements and how these elements determine their investment decisions. The researchers used the Theory of Planned Behavior as their data collection foundation while they conducted their research through snowball non-probability sampling among Pakistan Stock Exchange investors. The researchers applied Structural Equation Modeling to investigate how ESG factors affect the process of making investment decisions. The results demonstrated that Pakistani investors understand ESG topics at their highest level which they achieve through knowledge of governance factors that have greater influence than social and environmental components. The three factors together produced a substantial impact which positively affected investors' decisions. The research demonstrated that investors' ESG feature perceptions serve as key determinants for their investment results thus ESG evaluation needs to be established as essential component of investment process. The authors determined that companies must improve their ESG performance to gain investor interest while investors should view companies with robust ESG frameworks as dependable investments which yield superior financial returns.

Park and Oh (2022) applied the Unified Theory of Acceptance and Use of Technology (UTAUT) framework to examine how individual investors use ESG data when making corporate investment decisions. The research aimed to identify the key elements which drove ESG data integration while evaluating the associated risks. The researchers applied the UTAUT model to investigate investor behavior and the various factors which would affect their decision to adopt ESG integration. The UTAUT theory shows that performance expectancy effort expectancy social influence and facilitating conditions all

work together to determine how people adopt ESG information. The study concluded by underscoring the importance of having standardized ESG reporting and evaluation systems that will, in turn, lead to an easier adoption of ESG data in investment decision-making. Besides, it advised the companies to strengthen investor relations and communication related to ESG and called for active participation by both government and non-government organizations to encourage the practice of ESG integration in investments.

Jonsdottir et al. (2022) investigated what makes it difficult for the ESG data to be used in a good way, in investment decisions, giving the main argument to data quality problems and their influence on institutional investors' decision to include ESG factors. The semi-structured interviews with ESG data analyzing and reporting experts were the research method, and the professionals included people from rating agencies and institutional investors. The qualitative research aimed to find out where different quality issues in the reporting chain of ESG taking place and to get different views from the different stakeholders like the companies, rating agencies, and investors. The findings brought up various factors that hindered the transition to using ESG factors, such as questions on the materiality, accuracy, and reliability of the data. The interviewees mentioned that they were having a hard time getting the data from the government sources and they were also questioning the reliability of the ESG data, especially when it comes to carbon credit purchases made by companies. In the research, the companies and institutional investors were found to have opposite opinions on the released information being usable or not. To conclude, the above-mentioned insights provide a clear picture of the shared and divergent concerns of the ESG data quality, which in turn, can help to improve the standards of ESG reporting, quality, and trustworthiness for all stakeholders - companies, investors, and regulators.

Aich et al. (2021) applied a structural modeling approach to investigate the factors and their influence on ESG considerations which led to investment decisions. The researchers sought to discover the interplay among the factors related to ESG, and accordingly, to rank them in terms of their power and dependence. The authors employed Interpretive Structural Modeling (ISM) to show how different ESG factors affect investment choices made during brief and extended time frames. The research results showed that ESG evaluations function as essential components of the investment process which should not

exist as distinct independent procedures. Investors who use ESG factors in their decision-making process tend to prefer long-term risk-adjusted returns because it helps them achieve their investment goals and interests. The research filled one of the gaps in the literature which pertains to the precedence of ESG influencing factors along with their interrelationships which the ISM technique enabled clarifying. The study provides practical implications for investment-seeking firms while helping decision-makers understand how ESG factors impact corporate investment strategies.

Park and Jang (2021) studied how institutional investors assess South Korea's country-specific ESG standards. The team created and validated an ESG framework which integrates both international standards and local requirements through its customized approach. The team used Analytic Hierarchy Process (AHP) model to establish environmental social and governance category sequence which they tested through native and foreign ESG factors that impacted investment selection. According to the results institutional investors preferred environmental and governance factors more than social factors. The investors made their decisions based on three primary factors which included shareholder rights and pollution control measures and greenhouse gas emissions and risk management practices. The subcontractor relationship together with CEO reputation these two South Korean-specific elements showed strong influence on investor assessment of companies. The study established ESG model functions as a reference point that emerging markets can use to develop country-specific frameworks, while the study proves that institutional investors need to consider national context, when they want to understand ESG disclosures.

Young-Ferris and Roberts (2021) examined the Environmental Social and Governance ESG metrics for investment decision-making while they evaluated a particular equity investment team which depended on ESG metrics. The researchers aimed to determine how far ESG integration should take place in investment analysis. The researchers used qualitative case study methods to find multiple challenges which included uncertainty about ESG matters and problems with gathering and analyzing ESG information and the difficulties of assigning monetary value to ESG elements. The research findings established that financial accounting methods which normally exist in the industry fail to match ESG practices because these methods create doubts about ESG integration methods which exist at present. The research established that ESG factors possess

uncertain financial valuation and research showed that ESG data exists in multiple dimensions which create difficulties for measuring and collecting information. The researchers found two additional limitations which restricted complete ESG evaluation because financial forecasts only focused on short-term results while financial accounting systems lacked the capacity to manage ESG assessments. The researchers discovered that investors want to use ESG integration but they face multiple obstacles which involve finding ESG risks that will affect their financial results.

Khemir et al. (2019) assessed how ESG information affects investment decisions in Tunisia's developing market. The research aimed to determine whether Tunisian investors use ESG information for decision-making while identifying which ESG factors most sway their investment choices. The study used a field experiment with 245 Tunisian financial participants who had different levels of experience to test investment allocation effects from ESG information through factorial mixed ANOVA analysis. The study showed that ESG data strongly affected investment decisions. The analysis found that governance and social factors had greater influence than environmental factors. The research shows how ESG data affects investment decisions in emerging markets while countries that develop ESG disclosure standards must adopt ESG criteria.

The study performed by Rusu in 2020 investigated how investors make investment decisions based on environmental social and governance ESG factors while specifically analyzing sustainable investment practices. The researchers studied how ESG factors impact corporate financial results which then determine the investment choices made by investors. The study used a sequential 2 × 2 between-subjects experimental design to evaluate how investors process financial data together with sustainability data across various testing conditions. The researchers studied how sustainability practices combined with responsible business practices to determine their effects on stock price assessments and resource allocation decisions. The research findings demonstrated that all sustainability corporate strategies failed to impact investors stock price evaluation and fund distribution decisions which remained unchanged regardless of financial results. The situation remained unaffected by demographic factors with age serving as one of those factors. The investors' perception of ESG information importance and trustworthiness served as the only factor that influenced their investment decisions for extended periods. The research suggested that even if sustainability had been and would continue to be a

major concern for society and business, it might not be able to change the behavior of the investors alone. Traditional financial indicators still have a stronger influence on investment decisions, but the perception of ESG information does affect the long-term strategies.

Et al. (2019) investigated the influence of ESG data on the investment decision-making process by introducing a "user-oriented" framework which would allow for the evaluation of ESG data quality in terms of its relevance to investment variables. The authors of the paper distinguished not only six main ESG data quality aspects: reliability, granularity, freshness, comprehensiveness, action ability, and scarcity but also risk, performance, cost, construction, commitment, and influence as the six chief investment decision variables. After analyzing, they found that the different ESG data quality dimensions correlate to the investment decision variables in various ways which means investors pay attention to different aspects of ESG data according to their specific targets and tactics. The user-oriented evaluation empowers the investors to not only determine the ESG data quality but also its conformity with their objectives, thus ESG factors can be more effectively embedded in the investment strategies.

Ionescu et al. (2019) looked into how ESG factors impact the market value of companies in the travel and tourism sector. The study was not only aimed at establishing the relationship between ESG performance and firm market value but also to check whether higher ESG scores predict better performance in this industry. The researchers employed a modified Ohlson model to perform their analysis of 73 publicly traded companies across the globe over five years (2010-2015), and thus they evaluated the impact of ESG performance on market valuation. Their conclusions were in favor of the value-enhancing theory, and thus they proved that ESG factors play a positive role in the market value of travel and tourism companies. Among ESG components, it was governance that had the strongest impact on market value regardless of the geographical area. The research findings gave evidence of the necessity for the application of ESG factors in the process of increasing firm valuation in the travel and tourism sector.

Table 1

Summary of Empirical Review

S.N.	Authors	Title	Objective	Methodology	Independent Variables	Dependent Variables	Findings
1	Fadhlurrahman and Sar (2025)	Analysis of the Relationship Between Environmental, Social, and Governance (ESG) Practices and Investment Decision-Making (A Literature Review Study)	To analyze the influence of strategy implementation on competitive advantage using ESG practices	Systematic Literature Review (SLR) using PRISMA on 30 Scopus and Emerald-indexed articles (2018–2025)	ESG practices, Strategy implementation, Internal resources (digital capabilities, service innovation)	Investment decision-making, Competitive advantage	Strategy implementation positively impacts competitive advantage if VRIO criteria are met; RBV theory dominates; challenges include execution gap and resistance.
2	Setiyaningsih et al. (2025)	ESG Score Analysis as an Indicator for Investment Decisions and Sustainable Growth	To examine challenges and problems related to ESG and greenwashing in sustainability measurement	Descriptive qualitative literature review	ESG score analysis, Greenwashing practices, Organizational understanding of ESG	Investment decisions, Sustainable growth	ESG scores are widely used but often misapplied due to greenwashing; challenges in truly measuring sustainability.
3	Bhandari (2025)	Environment, Social and Governance Integration with Investment Decision in Asian Region: A Systematic Literature Review	To explore ESG integration in investment decision-making in Asia-Pacific region	Systematic literature review using PICo approach and PRISMA on 20 publications from JSTOR and Google Scholar	ESG integration, Governance factors (e.g., board independence), Regional dynamics (climate change, inequality, etc.)	Investment performance, Risk management	ESG integration improves risk management and financial performance in Asia; governance factors are most influential; regional disparities exist.

S.N.	Authors	Title	Objective	Methodology	Independent Variables	Dependent Variables	Findings
4	Kräussl et al. (2024)	A Review on ESG Investing: Investors' Expectations, Beliefs and Perceptions	To examine investor expectations, beliefs, and perceptions about ESG investing	Literature review based on equilibrium models and empirical evidence	Investor beliefs/preferences, Firm ESG adoption, Market valuation	Financial returns, Social impact, Capital cost	Investors prefer ESG investments which may lower long-term returns but can outperform short-term; ESG choices increase firm value and reduce capital costs.
5	Juthi et al. (2024)	Sustainable Finance and Data Analytics: A Systematic Review of ESG Data in Investment Decisions	To investigate ESG data role in corporate financial performance and investment decisions	Systematic review using PRISMA of 70 peer-reviewed studies from initial 1,200 articles	ESG scores/data, Market stress (e.g., COVID-19), AI/ML in ESG analytics	Corporate financial performance, Investment decision-making, Risk management	High ESG scores correlate with better financial resilience, especially in volatile markets; AI improves ESG data use; challenges in social/governance metrics persist.
6	Ali and Selvamani (2024)	Sustainable Finance: Integrating ESG Factors into Investment Decisions	To identify research gaps hindering ESG integration and propose solutions, with focus on Indian market	Literature review and analysis of existing studies and case examples	ESG integration challenges (data, reporting, regulations, incentives)	Sustainable finance effectiveness, ESG's influence on investment performance	ESG integration faces barriers like lack of standardization and skepticism; solutions include better metrics and incentives; Indian market growing in ESG

S.N.	Authors	Title	Objective	Methodology	Independent Variables	Dependent Variables	Findings
							awareness.
7	Marliani (2024)	Literature Reviews on the Challenges and Opportunities of ESG Integration in Investment Decisions	To examine challenges and benefits of ESG in investment decisions	Qualitative literature review	ESG data quality, ESG reporting practices, Accounting challenges	ESG effectiveness in investment decisions, Long-term investment returns	ESG integration offers growth potential but faces issues like inconsistent, unclear, and unreliable ESG reporting.
8	Khan and Iqbal (2024)	Integrating ESG With Corporate Investment Decision-Making	To study how ESG factors are incorporated in corporate investments	Qualitative analysis	ESG factors, Stakeholder expectations, ESG integration practices	Corporate investment decisions, Firm performance, Market value	Companies using ESG are better positioned for long-term financial success, risk reduction, and investor appeal.
9	Nafisa et al. (2023)	Corporate ESG Issues and Retail Investors' Investment Decision: A Moral Awareness Perspective	To assess how retail investors consider ESG in investments with moral awareness as moderator	Survey of 599 retail investors in Bangladesh; analyzed with PLS path modeling	ESG factors (Environmental, Social, Governance), Moral awareness (moderator)	Retail investor decision-making	Retail investors consider ESG issues in decisions; moral awareness strengthens this effect; supports behavioral finance insights.

S.N.	Authors	Title	Objective	Methodology	Independent Variables	Dependent Variables	Findings
10	Husnah et al. (2023)	Impact of ESG Data on Investment Decisions: Mediating Role of Investment Goals	To analyze how ESG affects investments, focusing on mediation by investment goals	Survey with SmartPLS 3.0	ESG dimensions (E, S, G), Investment objectives (mediator)	Investment decisions	Environmental factors strongly shape investment goals; social and governance factors also influence decisions through goals.
11	Kulal et al. (2023)	Impact of ESG Factors on Stock Prices and Investment Performance	To assess the link between ESG and stock market outcomes	Analytical evaluation of ESG performance	ESG performance/scores	Stock market valuation, Investment returns	Firms with strong ESG scores showed higher stock prices and better returns than firms with poor ESG records.
12	Rooh et al. (2023)	Impact of ESG Forces on Investors' Behavior in the Pakistani Stock Market	To study ESG effects on investor decisions and portfolio choices	Quantitative research with SmartPLS-SEM	ESG factors (UNGC & Thomson Reuters framework)	Portfolio selection, Investment decision-making	Pakistani investors are significantly influenced by ESG considerations in their investment strategies.
13	Cai (2023)	Analysis of ESG Factors in Financial Environment Risk and Investment Decision-Making	To assess ESG's role in managing financial risk and supporting sustainability	Literature review and empirical analysis	ESG factors, Financial environmental risks (climate, volatility, etc.)	Investment decision-making, Long-term returns, Risk exposure	Investments emphasizing ESG tend to achieve better long-term returns and reduce risks.

S.N.	Authors	Title	Objective	Methodology	Independent Variables	Dependent Variables	Findings
14	Mehwish et al. (2022)	ESG factors and their influence on the investment behavior of individual investor: a case from Pakistan	To examine the influence of ESG factors on individual investors' investment decisions in Pakistan	Deductive framework based on Theory of Planned Behavior (TPB); Primary data from 300 investors via snowball sampling; Analysis through Structural Equation Modeling (SEM)	ESG factors (E, S, G), Perceptions of ESG, Investor attitudes (TPB)	Investment decisions of individual investors	Investors are sensitive to ESG factors, with governance having the strongest influence, followed by social and environmental factors; ESG perceptions significantly affect investment outcomes; businesses should improve ESG to attract investment
15	Twinamatsiko and Kumar (2022)	Incorporating ESG in Decision-Making for Responsible and Sustainable Investments	To evaluate ESG disclosure impacts on company performance	Machine learning and regression analysis	ESG disclosure, Use of machine learning	Firm performance (e.g., ROA, ROE)	ESG disclosures have a strong positive effect on firm performance, especially in emerging markets.
16	Escrig-Olmedo et al. (2022)	Integrating Multiple ESG Investors' Preferences into Sustainable Investment	To integrate diverse ESG preferences into portfolio construction	Fuzzy multicriteria decision-making (MCDM)	Investor ESG preferences (conventional vs socially responsible)	Sustainable portfolio construction	The method improves portfolio accuracy by reflecting varied investor ESG priorities.

S.N.	Authors	Title	Objective	Methodology	Independent Variables	Dependent Variables	Findings
17	Islam et al. (2022)	Influence of ESG Factors on Investment Behavior of Individual Investors in Pakistan	To analyze how ESG influences individual investor choices	Structural Equation Modeling (SEM)	ESG factors, Investor perceptions	Investment decisions	Governance factors are most influential; Pakistani investors respond notably to ESG criteria.
18	Park and Oh (2022)	Integration of ESG Information into Individual Investors' Corporate Investment Decisions	To identify factors affecting ESG adoption by investors	Exploratory research	UTAUT model factors (Performance expectancy, Effort expectancy, Social influence, Facilitating conditions)	Adoption of ESG information in investment decisions	Adoption of ESG info is affected by expected performance, effort, social influence, and supporting conditions.
19	Jonsdottir et al. (2022)	Barriers to Using ESG Data for Investment Decisions	To uncover challenges in ESG data quality for institutional investors	Interviews and regression analysis	ESG data quality issues (materiality, accuracy, access, reliability)	Willingness to consider ESG in institutional investment decisions	Key obstacles include materiality, accuracy, and data access, particularly governmental data.
20	Aich et al. (2021)	Factors Influencing ESG Considerations in Investment Decisions: A Structural Approach	To prioritize factors driving ESG consideration in investments	Interpretive Structural Modeling (ISM)	ESG influencing factors (ISM-ranked), Long-term return expectations	ESG-informed investment decision-making	ESG evaluation is crucial for robust investment, with investors focusing on long-term risk-adjusted returns.

S.N.	Authors	Title	Objective	Methodology	Independent Variables	Dependent Variables	Findings
21	Park and Jang (2021)	The Impact of ESG Management on Investment Decision: Institutional Investors' Perceptions of Country-Specific ESG Criteria	To develop a South Korea-specific ESG framework incorporating global and country-specific factors and assess institutional investors' perceptions	AHP model survey of institutional investors in South Korea	Country-specific ESG criteria (shareholder rights, CEO reputation, subcontractor partnerships, etc.)	Institutional investors' ESG-based investment decisions	Institutional investors in South Korea prioritize environmental and governance factors; country-specific factors like CEO reputation matter for investment decisions.
22	Young-Ferris and Roberts (2021)	Challenges and Potentials of ESG Integration: A Case Study Approach	To explore ESG incorporation feasibility in investment analysis	Case study and qualitative analysis	ESG data usage, ESG ambiguity, Complexity in ESG measurement, Traditional accounting limitations	Feasibility and effectiveness of ESG integration in investment analysis	Identified major gaps between financial and ESG accounting and challenges in measuring ESG metrics.
23	Khemir et al. (2019)	Influence of ESG Information on Investment Allocation Decisions in an Emerging Country	To assess ESG info's role in investment decisions in Tunisia	Field experiment with mixed ANOVA	ESG information, ESG dimensions (Governance, Social, Environmental)	Investment allocation decisions	Governance and social factors had more impact on investment allocation than environmental factors.
24	Rusu (2020)	Impact of ESG Factors on Investors' Behavior: A Sequential Experiment	To study ESG's link to corporate performance and investor choices	Quantitative sequential experiment	ESG factors, Sustainability integration, Perceived ESG credibility	Investor behavior, Fund allocation, Long-term investment planning	ESG inclusion didn't significantly alter stock assessments but improved perceptions of long-term investment

S.N.	Authors	Title	Objective	Methodology	Independent Variables	Dependent Variables	Findings
							quality.
25	In et al. (2019)	Evaluation of Alternative ESG Data for Investment Decision-Making	To develop a framework for evaluating ESG data relevance	Identification of six ESG data quality dimensions	ESG data quality dimensions (Reliability, Granularity, Freshness, etc.)	Investment decision variables (Risk, Performance, Cost, Construction, Commitment, Influence)	Different ESG data aspects matter variably to investors depending on their goals and strategies.
26	Ionescu et al. (2019)	Impact of ESG Factors on Market Value in the Travel and Tourism Industry	To study ESG's effect on market value in travel industry	Analytical research with Modified Ohlson model	ESG performance, ESG components (Governance, Environmental, Social)	Firm market value in the travel and tourism industry investment decision	ESG positively affected market value, governance being the strongest factor.

2.4 Research Gap

The latest literature reviewed in this study have in a greater measure viewed the impact of the criteria for Environmental, Social, and Governance (ESG) on the decision of the investors to invest in various spots around the globe as a main focus. The most significant among the contributors are Fadhlurrahman and Sar (2025), Setiyaningsih et al. (2025), Bhandari (2025), Kräussl et al. (2024), and Juthi et al. (2024) who did either systematic reviews or empirical studies examining the impact of ESG practices on competitive positioning, portfolio returns, and individual investor preferences. Besides, Husnah et al. (2023), Rooh et al. (2023), Cai (2023), and Mehwish et al. (2022) developed the comprehension of ESG dynamics in different national contexts through quantitative studies. However, the situation is not the same everywhere, especially in the case of developing economies like Nepal where gaps still exist.

The ESG factors have been thoroughly examined regarding their financial implications, yet their significance in the Nepalese capital market, especially in the Kathmandu Valley, has been only slightly acknowledged. Previous studies like Bhandari (2025) and Rooh et al. (2023) were mainly focusing on the wider Asian region or on individual countries such as Pakistan. Nevertheless, a systematic investigation for Nepal is still missing. This research therefore fills that void by studying how ESG criteria affect the investment choices of the residents of the Kathmandu Valley.

Nonetheless, the majority of research examining ESG's influence on the activity of investors has been based on datasets covering the year 2024 or earlier, as pointed out by Fadhlurrahman and Sar (2025) and Juthi et al. (2024). Still, the continuous evolution of global ESG frameworks and the increasing policy focus on sustainability have made it hard to conduct research that utilizes the most recent data. This paper, therefore, takes a step further by employing the latest dataset for 2025, which reflects recent changes in the mood of investors and regulatory modifications.

Prior research has recognized ESG criteria, but many researchers have considered the framework as one single measure or have strangely given prominence to one aspect, usually governance, over the others. For example, studies by Husnah et al. (2023) and Mehwish et al. (2022) found that governance had a stronger impact, while Setiyaningsih et al. (2025) looked at ESG performance in a broad way without distinguishing between the three pillars. This kind of reasoning leads to a limitation in understanding the extent to which each dimension attracts or repels investors. The current study goes ahead of its predecessors by investigating environmental, social, and governance dimensions separately and thus revealing their respective impacts more distinctly.

In the past, literature on this topic has utilized mainly qualitative or quantitative methods, particularly the latter one through Structural Equation Modeling (SEM) (e.g., Juthi et al., 2024; Mehwish et al., 2022) without much integration of descriptive and causal-comparative designs. This research is going to fill the gap by taking on both the descriptive tools and a causal-comparative approach to give us surface-level insights and in-depth analysis respectively in terms of cause-and-effect relationships between ESG factors and investor behavior.

While previous research has contributed to the global and regional discussion regarding ESG and investment behavior, there are still several limitations such as lack of localized studies in Nepal, lack of updated empirical data, analysis of ESG dimensions in isolation and diversity of methodological strategies. This study intends to close these gaps by analyzing the effect of each individual ESG factor on the investment decision in Kathmandu Valley with the application of the latest 2025 data and a two-pronged methodological approach. The results are expected to be of help to investors, policymakers, and corporations in Nepal's developing sustainable finance context.

CHAPTER III
RESEARCH METHODOLOGY

In this chapter, the overall research method is clarified, and the study's design, target group, sampling methods, data types and sources, tools for data collection, analysis methods, conceptual framework, and key variable definitions are discussed.

3.1 Research Design

In this study, both descriptive and causal-comparative research methods were used. The descriptive method was used to assess the present situation and to comprehend the investors' views on the ESG factors in the context of Nepal's investment decisions. On the other hand, the causal-comparative method was used to investigate the impact of the ESG elements on the investment behavior in the Nepalese market.

3.2 Population and Sample, and Sampling Design

Since the study is on ESG investment and is carried out in Nepal, the target group is the whole population of the Kathmandu Valley which is 2,996,341 persons (CBS, 2021). Among these, a sample of 400 respondents has been chosen with the help of the Yamane Formula. Convenience sampling has been used for data collection to make it easier and the researcher is able to collect information based on how easily it can be accessed and how relevant it is to the study's goals. The Yamane formula is given below:

$$n = \frac{N}{1 + N(e^2)}$$

n = sample size

N = total population

e = margin of error (here 0.05 for 95% confidence)

n = 399.95 ≈ 400

So sample size is 400

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

The current study is based on the quantitative data, which is also known as primary data since it is collected directly from the original sources. For this purpose, the structured questionnaire survey method has been applied for data collection. The questionnaire has

been designed with care and is focused on being relevant and clear. The five-point Likert scale has been used, consisting of the options “strongly disagree” to “strongly agree” and scoring the answers from 1 to 5 respectively, where 1 is for strongly disagree, 2 is for disagree, 3 is for neutral, 4 is for agree, and 5 is for strongly agree.

3.4 Method of Analysis

The data processing followed an organized procedure which used statistical software programs Microsoft Excel and SPSS to handle the collected data. The data assessment employed various statistical techniques which included both descriptive statistics and correlation analysis and a multivariate regression model to achieve exact results.

3.4.1 Mean

The mean serves as a fundamental statistical measurement which calculates the average value of a dataset by dividing the total sum of its numbers by their total count. The researchers used the mean to calculate the average score which investors assigned to ESG factors that influenced their investment decisions in Nepal. The mean can be derived with the following formula:

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

Where,

X = Value of responses of each independent or dependent variable

n = Number of responses

3.4.2 Standard Deviation (S.D.)

Standard deviation (S.D.) serves as a statistical measurement tool which assesses the extent to which data points disperse from their mean value. The measurement shows how much individual responses differ from the calculated average. The research used standard deviation to assess how investors view ESG factors when they evaluate Nepal as an investment option because it affects their ability to understand different perspectives. The formula for calculating it is:

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

Where,

X = Value of responses of each dependent or independent variable

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

n= Number of responses

3.4.3 Correlation Analysis

Researchers use correlation analysis as a statistical method to assess both the strength and the direction of relationships between two or more observed variables. The study applied correlation analysis to investigate how ESG factors impact investment decisions in Nepal which served as the study's main focus. The correlation coefficient between the two variables can also be computed using the following formula:

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

Where,

n = Number of responses

X = Value of independent variable

Y= Value of dependent variable

3.4.4 Regression Analysis

Regression analysis is a statistical method that measures how much one or more independent variables affect a dependent variable. The research employed multivariate regression analysis to assess the impact of ESG factors on investment choices made in Nepal. The current research used the following regression model for analysis.

$Y_{ID} = \alpha + \beta_1 EV + \beta_2 SO + \beta_3 GV + E$..... Eq (1)

ID = Investment Decision

EV = Environmental Factor

SO = Social Factor

GV = Governance Factor

E = Error Term

α = Intercept term

β_1, β_2, β_3 are partial beta coefficients

3.4.5 Reliability Analysis

The researchers used Cronbach's alpha to conduct a reliability test which measured the consistency of their data. The test assesses whether the survey items produce stable results that match their intended measurement targets.

Table 2

Reliability Test

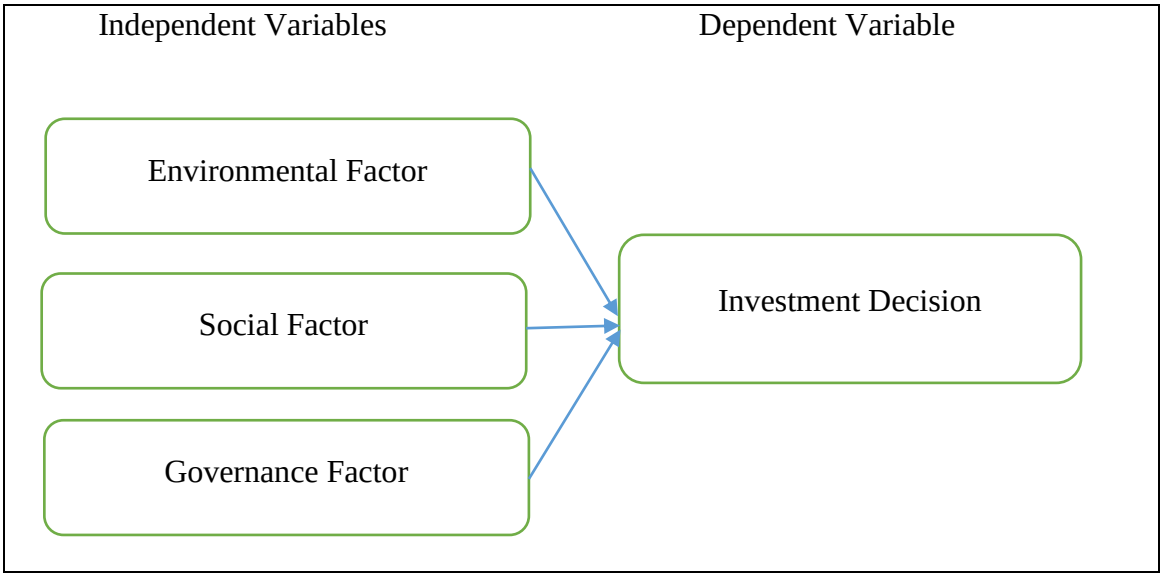
Code	Variable	Cronbach's Alpha	N of Items
EV	Environmental Factor	0.783	8
SO	Social Factor	0.806	8
GV	Governance Factor	0.808	8
ID	Investment Decision	0.836	8
Overall		0.916	32

Source: Field Survey, 2025

The study shows its data reliability test results through Table 2. Cronbach's alpha shows environmental factor (EV) measurement at 0.783, social factor (SO) measurement at 0.806, governance factor (GV) measurement at 0.808, and investment decision (ID) measurement at 0.836. The measurement results for all variables reached values above 0.70 which shows that the variables maintained their measurement consistency. The overall Cronbach's alpha for 32 items measures at 0.916 which ensures that the research data possesses high reliability.

3.5 Research Framework and Definition of Variables

The research framework of this study has been established by utilizing the model suggested by Mehwish et al. (2022), which considers environmental, social, and governance (ESG) factors as the independent variables, and investment decision as the dependent variable. The study framework specifically investigates how ESG aspects influence investor decision-making in Nepalese financial markets.



Source: Mehwish et al. (2022)

Figure 1. Research framework

The operational definition of variables are as follows:

Environmental Factor

The natural environment determines organizational behavior through its environmental factors because organizations need to control their environmental effects on natural resources and their climate change impact and their pollution management efforts and their biodiversity protection activities. Efimova (2018) points out that incorporation of ecology into business operations is necessary for the success of sustainability. According to Eccles et al. (2018) environmental solutions enable companies to build resilience while creating new paths for sustainable technology growth.

Social Factor

Social factors examine how companies interact with their communities through human rights protections and employee health programs and customer satisfaction initiatives. As Aich et al. (2021) stated, the companies have to guarantee the fair and ethical treatment of their stakeholders if they want to keep the social fabric and trust intact. According to Srivastav et al. (2024) organizations that practice social responsibility will see higher employee motivation and better public image than they experienced before.

Governance Factor

The governance factor establishes its governing framework through three elements which include organizational policies and leadership and the different organizational structures which maintain ethical conduct and accountable management practices. Hawn and Ioannou (2016) demonstrate that strong governance frameworks guarantee decision-making processes which provide stakeholders with transparent results that meet their needs. The study by Bebchuk et al. (2009) establishes that executive pay must match long-term business objectives for organizations to achieve successful governance.

Investment Decision

The incorporation of Environmental Social and Governance ESG aspects into investment decision-making becomes a standard practice because these elements are essential for evaluating a company's sustainability. Khan et al. (2016) demonstrate that ESG standards enable investors to identify risks which standard financial instruments fail to detect. Besides Srivastav et al. (2024) claim that ESG integration not only promotes ethical investing but also generates long-term financial returns.

CHAPTER IV
RESULTS AND DISCUSSION

The chapter is made up of results and discussion sections. Initially, the results are shown and scrutinized, and in the later part, they are compared with and contrasted to the discoveries of earlier research.

4.1 Results

Results of the descriptive study, correlation, and regression analysis are presented in tables in this section. Subsequently, these results are subjected to careful examination for interpretation.

4.1.1 Demographic Profile of Respondents

Demographic characteristics of the respondents, such as gender, age, investment experience and education, have been considered in this section. The analysis has been carried out in relation to each aspect to get a better understanding of the socio-demographic characteristics of the participants.

Table 3

Demographic Profile of Respondents

Demographic Profile		Frequency	Percent
Gender	Male	218	54.50
	Female	182	45.50
Age	Less than 20 Years	24	6.00
	21 to 30 years	133	33.25
	31 to 40 years	165	41.25
	41 to 50 years	49	12.25
	Above 50 years	29	7.25
Investment Experience	Less than 5 years	148	37.00
	5 to 10 years	190	47.50
	More than 10 years	62	15.50
Educations	SLC/SEE	7	1.75
	10+2/PCL	56	14.00
	Bachelor’s degree	234	58.50
	Master’s degree and above	103	25.75

Source: Field Survey, 2025

The gender distribution of participants is shown in Table 3, which also provides their demographic profile. The total number of respondents was 400, of which 218 (54.50%) were men and 182 (45.50%) were women. As for the age group, the distribution was as follows: 24 (6.00%) were under 20, 133 (33.25%) were in the age range of 21-30, 165 (41.25%) were in the age range of 31-40, 49 (12.25%) were in the age range of 41-50, and 29 (7.25%) were older than 50. In terms of investment experience, 148 (37.00%) were novices with less than 5 years, 190 (47.50%) were intermediates with 5 to 10 years, and 62 (15.50%) were experts with more than 10 years. The educational background shows that 7 (1.75%) of the participants completed SLC/SEE while 56 (14.00%) achieved 10+2/PCL and 234 (58.50%) obtained bachelor's degrees and 103 (25.75%) earned master's degrees or higher degrees.

4.1.2 Descriptive Statistics

In the current research, descriptive results have been applied to assess the beliefs of investors concerning the influence of ESG issues on their investment choices in Nepal.

A. Summary of Descriptive Statistics

The section presents descriptive statistical data which analyzes the main components of environmental social governance and investment selections through numerical analysis of mean values and standard deviation measurements. The study examines how Nepalese investors use environmental social governance metrics for their investment decision-making process.

Table 4

Summary of Descriptive Statistics

Variable	Mean	S.D.
EV	3.774	0.664
SO	3.876	0.641
GV	3.814	0.668
ID	3.936	0.686

Source: Field Survey, 2025

The summary of descriptive statistics illustrating investors' perceptions toward ESG factors in Nepal is shown in Table 4.

The environmental factor (EV) scores show an average score of 3.774 with a standard deviation of 0.664. The study results show that investors view environmental factors as important for making investment decisions with different levels of response between participants which shows particular investor specific preferences.

The social factor (SO) has a mean score of 3.876 and a standard deviation of 0.641. The higher mean indicates that investors' perception of social aspects in their investment decisions is generally positive, with the responses being relatively consistent among the participants.

The governance factor (GV) mean score is 3.814 and the standard deviation is 0.668. Investors in the study showed positive views about governance factors although their different opinions about this issue caused them to respond in various ways.

The investment decision (ID) scores show a mean of 3.936 and a standard deviation of 0.686. It implies that investors view ESG factors very positively when incorporating them in their investment decisions, and the responses are moderately spread out around the mean.

B. Descriptive Result of Environmental Factor

This part presents the descriptive findings regarding the environmental factor's influence on investment decision in Nepal, examining the way investors evaluate environmental issues in their investment decisions.

Table 5

Descriptive Result of Environmental Factor

Statements	Mean	S.D.
I take climate change concerns into account when making investment decisions.	3.658	1.166
The implementation of proper waste management practices influences where I invest.	3.665	1.094
I am more inclined to invest in companies that adopt eco-friendly technologies, such as solar energy.	3.673	1.104
I consider efforts to reduce harmful emissions as a key factor in my investment preferences.	3.755	0.981
I tend to invest in companies that offer environmentally friendly products.	3.753	1.019
My investment interest increases with firms innovating in environmental technologies.	3.978	1.022
Public and civil society advocacy for environmental accountability affects my investment decisions.	3.790	1.051
I am more likely to invest in businesses actively working to reduce their carbon footprint.	3.903	0.983

Source: Field Survey, 2025

The descriptive study of perception of respondents towards environmental factors in investment decisions is shown in Table 5. Among all the statements, “My investment interest increases with firms innovating in environmental technologies” has the highest average of 3.978 with a standard deviation of 1.022. This points to the fact that the respondents are very positive regarding the investment in companies that are into developing new environmental technologies and the shared view among most of the respondents is supported by the fact that there is some variation in the intensity of their interest.

The other hand sees the statement “I take climate change concerns into account when making investment decisions” having the lowest mean of 3.658 with a standard deviation of 1.166. This infers that even though the investors factor in climate change in their decisions, the perception is only moderately positive and the responses show a greater variation in comparison with other environmental factors.

The descriptive study in total indicates that the respondents, in general, are positively inclined toward environmental factors in investment decisions, with a greater interest in innovative environmental technologies and a somewhat lower emphasis on general climate change concerns.

C. Descriptive Result of Social Factor

This part is dedicated on the results regarding the impact of social aspect on investment decision in Nepal, looking at the way social factors affect the investors' decisions.

Table 6

Descriptive Result of Social Factor

Statements	Mean	S.D.
I value companies that prioritize health and safety in the workplace.	3.968	0.948
I am influenced by organizations that offer strong employee benefits when deciding to invest.	4.008	0.962
A company's engagement with the local community plays an important role in my investment choices.	4.015	0.950
Respect for human rights is a key consideration in my investment decisions.	3.850	1.012
I prefer investing in companies that provide training and development opportunities for their employees.	3.860	0.939
Organizations promoting work-life balance and equal opportunity appeal to me as an investor.	3.738	1.008
I am guided by the quality and safety of products when making investment choices.	3.848	0.996
I consider a company’s commitment to social responsibility as essential in investment evaluation.	3.708	1.058

Source: Field Survey, 2025

Table 6 details the descriptive study regarding the perception of respondents on the social factor in investment decisions.

The statement “A company's engagement with the local community plays an important role in my investment choices” retrieves the highest average of 4.015 with a standard deviation of 0.950. This means that the respondents consider engaging with the local community as one of the most important criteria for them to invest, and this positive opinion of the majority of the investors is accompanied by less diversity.

On the other hand, the statement “I consider a company’s commitment to social responsibility as essential in investment evaluation” receives the lowest mean of 3.708 with a standard deviation of 1.058. This indicates that the respondents regard social responsibility as an important factor, but their perception is only moderately positive, and there is a greater variation in the opinions of the investors.

In short, the descriptive study reveals that the respondents are pretty much considering social factors in their investment decisions as a positive factor, especially by giving weight to community engagement and employee-related benefits, while the emphasis on social responsibility is slightly lower.

D. Descriptive Result of Governance Factor

This segment outlines the demonstrative findings of the governance factor's impact on the investment decision in Nepal, especially regarding the influence of governance aspects on the investors' choices.

Table 7

Descriptive Result of Governance Factor

Statements	Mean	S.D.
I place high importance on board independence and accountability in companies I invest in.	3.810	1.209
Well-organized and effective board structures influence my investment decisions.	3.863	0.990
I prefer companies that maintain transparent and rigorous financial reporting standards.	3.718	1.123
A properly functioning audit committee is an important governance aspect in my investment choices.	3.945	0.905
I consider auditor independence essential when evaluating investment options.	3.758	0.980
I support performance-based executive compensation as a key governance practice.	3.703	0.996
Strong anti-corruption policies play a significant role in shaping my investment preferences.	3.983	0.902
I value companies that uphold equal rights for all shareholders.	3.718	1.044

Source: Field Survey, 2025

The respondents' perception toward the governance factor in investment decisions is illustrated in Table 7, showing the descriptive study.

The statement “Strong anti-corruption policies play a significant role in shaping my investment preferences” has the highest mean of 3.983 with a standard deviation of 0.902. This means that the anti-corruption measures in companies are very much appreciated by the respondents and the majority of the investors have the same positive perception with just a small difference in the degree of the perception.

In contrast, the statement “I support performance-based executive compensation as a key governance practice” has the lowest mean of 3.703 with a standard deviation of 0.996. This means that while the respondents acknowledge the importance of performance-based compensation, their perception is moderately positive and the opinions among the investors particularly vary a bit more.

The descriptive study overall suggests that respondents have a positive perception towards governance factors in investment decisions, with the main emphasis on anti-corruption policies and board effectiveness, while-performance executive compensation being considered as having a less significant effect.

E. Descriptive Result of Investment Decision

The outcomes of the study regarding investment decision ESG factors in Nepal are narratively presented in this section, illustrating the impact of ESG factors on the investors' decisions.

Table 8

Descriptive Result of Investment Decision

Statements	Mean	S.D.
I am more inclined to invest in companies that integrate ESG considerations into their core business strategies.	3.938	0.967
I believe robust ESG practices contribute to long-term and sustainable financial returns.	3.878	1.096
ESG factors are an important part of my investment decision-making process.	4.040	0.866
I am willing to accept lower short-term returns in favor of ESG-aligned investments.	3.950	0.956
Sound ESG practices help reduce the risks associated with investment decisions.	3.948	0.973
Corporate governance practices significantly impact my investment choices.	3.885	0.972
Transparency and clarity in ESG initiatives make a company more attractive to me.	4.100	0.968
I believe ESG factors positively influence a company’s overall financial performance.	3.733	1.210

Source: Field Survey, 2025

The opinion of the respondents concerning the investment decision on the basis of ESG factors is wired in descriptive study that is shown in Table 8.

The phrase “Transparency and clarity in ESG initiatives make a company more attractive to me” received the highest mean score of 4.100 along with a standard deviation of 0.968. This means that the investors who took part in the survey placed a very high value on the clarity and openness of the ESG practices at the time of the investment decision, while the majority of the investors were quite similar to each other in their positive perception with a low degree of variation.

On the other hand, the statement “I believe ESG factors positively influence a company’s overall financial performance” was rated the lowest with an average score of 3.733 and a standard deviation of 1.210. This inference leads to the implication that investors, though aware of the financial implications of ESG factors, still consider this point to be only moderately positive and, in addition, opinions on the matter vary a great deal among the investors.

Overall, whole descriptive study reveals that when it comes to investment decisions the respondents have a positive view of the ESG factors in general, however, they do give a higher priority to the transparency and clarity of the ESG initiatives while the perceived impact on the overall financial performance is lower in comparison.

4.1.3 Correlation Analysis

Correlation analysis, in this segment, has been utilized to measure the influence of ESG factors on the investment decisions made in Nepal, thus analyzing the interplay among various variables.

Table 9

Result of Correlation Analysis

Correlation		EV	SO	GV	ID
EV	Pearson Correlation	1			
	Sig. (2-tailed)				
SO	Pearson Correlation	.604**	1		
	Sig. (2-tailed)	0.000			
GV	Pearson Correlation	.405**	.724**	1	
	Sig. (2-tailed)	0.000	0.000		
ID	Pearson Correlation	.425**	.537**	.514**	1
	Sig. (2-tailed)	0.000	0.000	0.000	

Source: Field Survey, 2025

Table 9 shows the relationships in terms of correlation between EV (environmental factor), SO (social factor), GV (governance factor) as the independent variables, and ID (investment decision) as the dependent variable.

The correlation coefficient between EV and ID was found to be 0.425—thus, it is positive and moderate. This means that the higher the EV, the higher the ID; in addition, the relationship is statistically significant at the 5 percent level (p = 0.000).

The correlation coefficient between SO and ID is 0.537—thus, it is positive and fairly strong. This means that the higher the SO, the higher the ID; moreover, the relationship is significant at the 5 percent level (p = 0.000).

The correlation coefficient between GV and ID is 0.514— so it is positive and of moderate strength. This means that the better the GV, the higher the ID; furthermore, the relationship is significant at the 5 percent level (p = 0.000).

4.1.4 Regression Analysis

This part of the research employs multivariate regression analysis to evaluate the effect of ESG factors on the investment decision-making process in Nepal, considering the simultaneous influence of several factors on the investors' choice.

Table 10

Model Summary of Regression Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.583	0.340	0.335	0.559

Source: Field Survey, 2025

The model summary of the regression model is displayed in Table 10. The model has an R value of 0.583, which suggests a moderate relationship between the independent variables—the environmental factor (EV), social factor (SO), and governance factor (GV)—and the dependent variable investment decision (ID). The R Square is 0.340, which shows that 34% of the variance in ID is caused by EV, SO, and GV, while the adjusted R Square of 0.335 considers the number of predictors in the model. The standard error of the estimate is 0.559, which indicates the average distance of observed ID values from the predicted ones.

Table 11

ANOVA Table of Regression Model

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	63.923	3	21.308	68.078	0.000
	Residual	123.944	396	0.313		
	Total	187.868	399			

Source: Field Survey, 2025

The ANOVA table of the regression model is shown in Table 11. The model gives an F value of 68.078 and a significance level of 0.000, which is lower than 0.05. This means that the regression model, which has environmental factor (EV), social factor (SO), and governance factor (GV) as predictors, is statistically significant and thus can be used for investment decision (ID) analysis.

Table 12

Beta Coefficient of Regression Model

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.216	0.195		6.244	0.000		
	EV	0.179	0.053	0.174	3.381	0.001	0.633	1.581
	SO	0.248	0.073	0.232	3.410	0.001	0.360	2.775
	GV	0.284	0.061	0.276	4.662	0.000	0.475	2.107

Source: Field Survey, 2025

The beta coefficients of the regression model are shown in Table 12.

The environmental factor (EV) has an unstandardized beta (B) of 0.179 and a standardized beta of 0.174 with a significance value of 0.001, which is below the threshold of 0.05. The VIF value of 1.581 reveals no multicollinearity present. It can safely be concluded that EV had a positive and significant impact on ID. More specifically, a one-unit increase in EV will result in an increase of 0.179 units in ID.

Thus, it can be interpreted that the focus of the investors on environmental factors will most likely facilitate the ESG-aligned investment decisions.

In case of the social factor (SO), the unstandardized beta is 0.248 the standardized beta is 0.232 with a significance of 0.001, which is also lower than 0.05. The VIF of 2.775 indicates the absence of multicollinearity. This means that the SO positively affects the ID and the impact is significant. An increase of one unit in SO corresponds to an increase of 0.248 units in the ID. Therefore, in the future, the social factors like employee welfare and community engagement, which are already considered the companies' social responsibility, will eventually make the investors' ESG-based decision-making stronger.

Concerning the governance factor (GV), the unstandardized beta is 0.284, and the standardized beta is 0.276 with a level of significance of 0.000, which is below the 0.05 limit. The VIF is 2.107, thus verifying that there is no multicollinearity. Therefore, it can be concluded that among the three factors GV is positively and significantly affecting ID the most. If GV increases by one unit, ID will most probably increase by 0.284 units. Enhancing governance through practices like transparency, anti-corruption applications, and board accountability, will probably result in investors being more willing to make ESG-aligned decisions.

4.1.5 Major Findings

i. Investors' views about the environmental factor are moderately favorable with a mean score of 3.774 and a standard deviation of 0.664 that demonstrates some differences among the answers.
ii. Investors give social factor a generally positive view with a mean score of 3.876 and a standard deviation of 0.641 that shows quite a uniformity in the views.
iii. The governance factor is seen favorably by investors with an average score of 3.814 and a variability of 0.668, meaning that there are slight differences among the answers.
iv. The investment decision indicates a strong positive perception of ESG factors' inclusion with an average score of 3.936 and a standard deviation of 0.686, where responses are distributed in a moderate way around the mean.
v. The environmental factor and investment decision correlation is positive and moderate with a value of 0.425, which means that the higher the environmental factor, the higher the investment decision and this relationship is significant at the five percent level.

vi. The correlation of the social factor and the investment decision is positive and relatively strong with a value of 0.537, thereby indicating that higher social factor is equated with higher investment decision and the relationship is significant at the 5 percent level.

vii. The positive correlation of the governance factor to the investment decision is a moderate strength one at 0.514, showing that better governance relates to more investment decisions and the relationship is significant at the 5 percent level.

viii. The environmental factor has a positive and significant influence on the investment decision with an unstandardized beta of 0.179 and a standardized beta of 0.174, which means that a rise by one unit in the environmental factor results in a 0.179 unit uplift in the investment decision.

ix. The social factor gives a positive and significant contribution to the investment decision with an unstandardized beta of 0.248 and a standardized beta of 0.232, which imply that a one unit increase in the social factor causes an increase of 0.248 units in the investment decision.

x. The governance factor exerts the most substantial positive and significant impact on the investment decision with an unstandardized beta of 0.284 and a standardized beta of 0.276, hence a one-unit increase in the governance factor causes an investment decision rise by 0.284 units.

4.1.6 Hypothesis Testing

Table 13

Hypothesis Testing

S.N.	Hypothesis	p-Value	Remarks
H1	There is a significant impact of environmental factors on the investment decisions of investors in Nepal.	0.001	Accept
H2	There is a significant impact of social factors on the investment decisions of investors in Nepal.	0.001	Accept
H3	There is a significant impact of governance factors on the investment decisions of investors in Nepal.	0.000	Accept

4.2 Discussion

The first objective of this research was to study the impact of ESG factors perception on investment decisions in Nepal. The results revealed that investors were overall very positive towards the environmental, social, and governance factors; with the environmental and governance considerations being somewhat positive and social factors showing a slightly stronger positive perception. Investors in the end demonstrated a very strong positive attitude towards ESG factors and showed that they were well aware of and accepted the use of these factors in the investment context of Nepal. According to Fadhlurrahman and Sar (2025), ESG-related strategies also had a positive effect on the investment behavior which is in line with the current findings. Bhandari (2025) revealed that governance was a main factor affecting investment decisions which is also the case with this study's observation of governance having a moderately positive perception. Kräussl et al. (2024) argued that generally, investors prefer to invest in ESG and become very active which is indeed in support of the positive investor perception that this research found. Juthi et al. (2024) underscored the great impact of environmental and governance factors on the long-term financial results, which is in part this study's finding as it points out that social factors are very slightly stronger than governance. In contrast, Setiyaningsih et al. (2025) pointed out doubts and the like, including greenwashing, as challenges in the way of ESG adoption which somewhat conflicts with the overall positive perception reported by the present study.

The second objective of this study established that in Nepal, all three ESG factors—environmental, social, and governance—had a very strong positive relationship with investment decisions with environmental factors showing a moderate positive influence, social factors showing a very strong positive impact, and governance factors having a moderate to strong impact, thus indicating that greater awareness of these factors was coupled with higher investment decisions. Fadhlurrahman and Sar (2025) were in agreement with the current research and cited the positive role ESG practices played in the improvement of investment outcomes, which matched the present study's finding of positive relationships between ESG factors and investment decisions. As a result, Bhandari (2025) pointed out governance as an investment choice influencer, which was in line with the moderately strong impact observed in this study. Investors were reported by both Nafisa et al. (2023) and Husnah et al. (2023) as being positively influenced by the environmental, social, and governance factors which was the reinforcement of the current

study’s findings mainly regarding the strong impact of social factors. Park and Jang (2021) observed that environmental and governance factors were the top priority for institutional investors, which also aligns with this study's observed positive effects of environmental and governance considerations. On the other hand, Rusu (2020) found that despite the acknowledgment of ESG factors, they did not significantly change investor behavior, which slightly differed from the present study's results where all ESG factors had a significant positive impact.

The third objective findings of this study showed that the three ESG factors and the environmental, social, and governance, the governance factor had the biggest impact on the investors, followed by the social and environmental factors, which was the case in Nepal. the implication was that the investors would be compatible with the ESG criteria if these dimensions were given priority. Ali and Selvamani (2024) argued that good ESG practices add value to the investments, thus reinforcing the current study’s argument that the ESG factors have a positive influence. Furthermore, while pointing out the difficulties in reporting, Marliani (2024) remarked that ESG integration is a means to achieve higher returns on investments over the long run, which, in fact, is in line with the present study's claims. Khan and Iqbal (2024) found that the governance factor plays a role in the positive impact of ESG considerations on corporate value and long-term financial management, among the current study's conclusion making governance the strongest impact predictor. Empirical studies by Nafisa et al. (2023) and Husnah et al. (2023) provided evidence that the investors are ready to accept environmental, social, and governance considerations, thus, they further confirmed the present study's finding of the positive significance of all ESG components. Kulal et al. (2023) indicated that the ESG credentials are directly related to the financial outcomes, thus, being in line with the current evidence that ESG factors indeed play a role in investment decisions. On the other hand, Rusu (2020) reported that the impact of ESG integration on the behavior of the investors in the short term was quite limited. Hence, his findings are partly in contrast with the present study, where all the ESG factors were found to significantly influence the decision-making process.

CHAPTER V
SUMMARY AND CONCLUSION

This chapter contains the overall summary of the study, the conclusions that were drawn, and the implications of the findings. It acts as the summarizing and concluding chapter, pointing out the main results and their importance for the research.

5.1 Summary

This study has examined the factors and difficulties of incorporating ESG factors into investment decisions have concentrated on the perception of investors about these in Nepal. Besides that, the study has gone further to analyze the interdependence of ESG factors and investment decisions; also, it has evaluated the impact of these factors on the investors' preferences. In short, the primary objectives of the research have been to reveal the extent to which environmental, social, and governance factors affect the investment behavior and the decision-making process in the specific case of Nepal.

This study's literature review has been structured into four primary categories. The conceptual review has taken a close look at ESG investing along with its six principles and has discussed environmental, social, and governance issues and their impact on the choice of investments. The theoretical review has talked about stakeholder theory, the theory of compounded returns, skeptical theory, and the nice to have theory in order to give a base for understanding ESG considerations. The empirical review has gone through earlier studies regarding ESG factors and investment decisions, and the research gap has pointed out the areas that need more investigation.

The research has adopted descriptive and causal-comparative research designs concurrently. The descriptive method has been utilized to assess the current situation and gain insight into the investors' point of view on ESG factors for investment in Nepal, while the causal-comparative design has been used to assess how ESG elements affect investing behavior in the Nepalese market. The target population has been the total population of the Kathmandu Valley, which amounts to 2,996,341 people, from which a sample of 400 respondents has been selected using the Yamane formula and a 5 percent margin of error. The researchers chose convenience sampling because this method allows

them to obtain study data from participants who fulfill their research criteria and who can be easily reached. Researchers created a structured questionnaire which they used to gather primary data after they spent extensive time developing all questions with both clear wording and relevant content. The study used a five-point Likert scale which required respondents to express their opinions between two extreme points of strongly disagree and strongly agree, while the scoring system assigned values between 1 and 5.
The research team used Microsoft Excel and SPSS as their primary statistical tools to organize and analyze the collected data. The researchers used descriptive statistics together with correlation analysis and multivariate regression analysis to display study findings in a way that readers can comprehend. The researchers developed their research design according to the framework established by Mehwish et al. (2022) which treated environmental social and governance (ESG) factors as independent variables and investment decision as the dependent variable. The framework has been developed to evaluate how ESG factors affect the investment choices made by investors in Nepal.

The research discovered that environmental social and governance factors served as the primary components which investors utilized to determine their investment selections in Nepal. The results showed that all three factors established a positive relationship with investment decision-making but social and governance factors created stronger connections. The assessment results show that governance factor brought the greatest positive impact while social and environmental factors followed which indicates that improved ESG practices will lead investors to take bolder and more responsible investment decisions. The ESG factors have continuously shown strong positive effects on investment decisions throughout the history of Nepalese investment practices.

The study produced practical applications which brought theoretical advancements to academic research. The study demonstrates that investors use ESG factors as decision-making tools which simultaneously push companies to enhance their environmental and social and governance performance. The research has advanced understanding of how ESG components affect investment behavior in Nepal through its findings. The study results indicate that investment professionals should utilize ESG factors for their decision-making methods while government and business sectors should collaborate to raise ESG knowledge which will establish sustainable investment frameworks.

5.2 Conclusion

The first objective of this research was to analyze the role of ESG factors from the perspective of the investors while making investment decisions in Nepal. It has been shown by the results that, in general, investors' perceptions of the environmental, social, and governance factors are positive, with the environmental and governance factors receiving a moderately positive rating while the social aspect is seen as having a slightly stronger positive perception. To sum up, investors have been quite supportive of the idea of taking ESG factors into consideration in their investment decisions, thus signalling that there is a good level of awareness and acceptance of these matters in the Nepalese investment environment.

The second objective of this study was to scrutinize the investors ESG perception as they were the decision-makers about the investments in Nepal. The environmental factor has been associated with the investment decision in a positive and moderate manner, meaning that if the environment is considered more, it would result in more investment decisions. Social factor has shown a positive and strong influence on the investment decision; therefore, if one wants to invest, one has to make a stronger case on the social aspect. Similarly, the governance factor has a positive and moderate relationship with the investment decision that is, the better governance practices are, the more willing investors would be to invest. In conclusion, all the three ESG factors have a significant positive impact on investment decisions.

The third objective of this study was to evaluate the effect of ESG factors on investment decisions in Nepal. The results have revealed that the environment factor has a positive and significant impact on the decision to invest, which means that more care to environmental issues could encourage the investors' ESG-compatible choices. The social factor also shows a positive and significant impact, indicating that the elements of social responsibility in the companies like taking care of the employees and community involvement can attract the investment. The governance factor has produced the strongest positive and significant influence on investment decision, which means that the investors are likely to make more ESG-based decisions if the company practices, such as transparency, accountability, and anti-corruption, are implemented. The three factors have positively and significantly contributed to the investment decisions in total.

5.3 Implications

5.3.1 Managerial Implications

i. Managers ought to give preference to initiatives that are good for the environment, for example, green technologies and lowering emissions, in order to bring in investors who are aware of and concerned about ESG issues.
ii. In order to boost the trust of investors, companies must invest in social practices such as providing better working conditions for employees, offering more training programs, and engaging more with the community.
iii. Governance reforms like transparency, accountability, and anti-corruption policies need to be put in place in order to create a good impact on investment decisions.
iv. Companies must ensure that their ESG practices are clearly communicated to investors so that the latter will be aware of the former's commitment to conservative and responsible business practices through sustainability.
v. The corporate strategy of companies should incorporate ESG into the very core of the business in order to retain not only long-term competitiveness but also the trust of investors.

5.3.2 Practical Implications

i. Future studies may encompass the different regions of Nepal and the ESG impacts on investment decisions in order to detect the possible regional differences.
ii. Moreover, the researchers can investigate the influence of other factors aside from ESG investments, such as cultural, economic, or regulatory factors.
iii. Long-term studies could be done to track the changes in the perception of ESG issues and their influence on investment choices over time.
iv. Subsequent research can highlight the comparison of ESG implications on investment decisions in Nepal with those in other developing nations to reveal global trends.
v. Researchers might consider studying the effect of each ESG element separately, and they can further probe which one—environmental, social, or governance—exerts the most substantial influence on investor behavior.

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APPENDICES

Appendix I

Questionnaire

Dear Sir/Mam,

I am currently pursuing my Master's degree at Shanker Dev Campus and am conducting research for my dissertation titled "**Effect of ESG Factors on Investment Decision of Investors in Nepal**."

As someone whose insights and perspectives are immensely valuable, I would be sincerely grateful for your participation in this study. The purpose of the survey is to explore how environmental, social, and governance (ESG) factors influence the investment choices of individuals like yourself. Your responses will provide meaningful insights and greatly enrich the academic understanding of this important and timely topic.

The survey will only take a few minutes of your time. Please rest assured that all information you provide will be kept strictly confidential and used exclusively for academic purposes.

Thank you in advance for your precious time and kind support. Your contribution is truly appreciated and will make a significant difference to this research.

Warmest regards,

Deepa Adhikari

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:

- ☐ Male
- ☐ Female

2. Age:

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

3. Investment Experience:

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

4. Education:

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

S.N.	Environmental Factor (EV)	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
EV1	I take climate change concerns into account when making investment decisions.					
EV2	The implementation of proper waste management practices influences where I invest.					
EV3	I am more inclined to invest in companies that adopt eco-friendly technologies, such as solar energy.					
EV4	I consider efforts to reduce harmful emissions as a key factor in my investment preferences.					
EV5	I tend to invest in companies that offer environmentally friendly products.					
EV6	My investment interest increases with firms innovating in environmental technologies.					
EV7	Public and civil society					

	advocacy for environmental accountability affects my investment decisions.					
EV8	I am more likely to invest in businesses actively working to reduce their carbon footprint.					
S.N.	Social Factors (SO)	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
SO1	I value companies that prioritize health and safety in the workplace.					
SO2	I am influenced by organizations that offer strong employee benefits when deciding to invest.					
SO3	A company's engagement with the local community plays an important role in my investment choices.					
SO4	Respect for human rights is a key consideration in my investment decisions.					
SO5	I prefer investing in companies that provide training and development opportunities for their employees.					
SO6	Organizations promoting work-life balance and equal opportunity appeal to me as an investor.					
SO7	I am guided by the quality and safety of products when making investment choices.					

SO8	I consider a company's commitment to social responsibility as essential in investment evaluation.					
S.N.	Governance Factors (GV)	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
GV1	I place high importance on board independence and accountability in companies I invest in.					
GV2	Well-organized and effective board structures influence my investment decisions.					
GV3	I prefer companies that maintain transparent and rigorous financial reporting standards.					
GV4	A properly functioning audit committee is an important governance aspect in my investment choices.					
GV5	I consider auditor independence essential when evaluating investment options.					
GV6	I support performance-based executive compensation as a key governance practice.					
GV7	Strong anti-corruption policies play a significant role in shaping my investment preferences.					
GV8	I value companies that uphold equal rights for all					

	shareholders.					
S.N.	Investment Decision Factors (IND)	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
ID1	I am more inclined to invest in companies that integrate ESG considerations into their core business strategies.					
ID2	I believe robust ESG practices contribute to long-term and sustainable financial returns.					
ID3	ESG factors are an important part of my investment decision-making process.					
ID4	I am willing to accept lower short-term returns in favor of ESG-aligned investments.					
ID5	Sound ESG practices help reduce the risks associated with investment decisions.					
ID6	Corporate governance practices significantly impact my investment choices.					
ID7	Transparency and clarity in ESG initiatives make a company more attractive to me.					
ID8	I believe ESG factors positively influence a company's overall financial performance.					

Appendix II

SPSS Output

Frequency Table

Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	218	54.5	54.5	54.5
	Female	182	45.5	45.5	100.0
	Total	400	100.0	100.0	

Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 20 Years	24	6.0	6.0	6.0
	21 to 30 years	133	33.3	33.3	39.3
	31 to 40 years	165	41.3	41.3	80.5
	41 to 50 years	49	12.3	12.3	92.8
	Above 50 years	29	7.3	7.3	100.0
	Total	400	100.0	100.0	

Investment Experience

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 5 years	148	37.0	37.0	37.0
	5 to 10 years	190	47.5	47.5	84.5
	More than 10 years	62	15.5	15.5	100.0
	Total	400	100.0	100.0	

Educations

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	SLC/SEE	7	1.8	1.8	1.8
	10+2/PCL	56	14.0	14.0	15.8

	Bachelor’s degree	234	58.5	58.5	74.3
	Master’s degree and above	103	25.8	25.8	100.0
	Total	400	100.0	100.0	

Reliability Analysis

Reliability Statistics of Environmental Factor

Cronbach's Alpha	N of Items
0.783	8

Reliability Statistics of Social Factor

Cronbach's Alpha	N of Items
0.806	8

Reliability Statistics of Governance Factor

Cronbach's Alpha	N of Items
0.808	8

Reliability Statistics of Investment Decision

Cronbach's Alpha	N of Items
0.836	8

Overall Reliability Statistics

Cronbach's Alpha	N of Items
0.916	32

Descriptive Statistics

	N	Mean	Std. Deviation
I take climate change concerns into account when making investment decisions.	400	3.658	1.166
The implementation of proper waste management practices influences where I invest.	400	3.665	1.094
I am more inclined to invest in companies that adopt eco-friendly technologies, such as solar energy.	400	3.673	1.104
I consider efforts to reduce harmful emissions as a key factor in my investment preferences.	400	3.755	0.981
I tend to invest in companies that offer environmentally friendly products.	400	3.753	1.019
My investment interest increases with firms innovating in environmental technologies.	400	3.978	1.022
Public and civil society advocacy for environmental accountability affects my investment decisions.	400	3.790	1.051
I am more likely to invest in businesses actively working to reduce their carbon footprint.	400	3.903	0.983
I value companies that prioritize health and safety in the workplace.	400	3.968	0.948
I am influenced by organizations that offer strong employee benefits when deciding to invest.	400	4.008	0.962
A company's engagement with the local community plays an important role in my investment choices.	400	4.015	0.950
Respect for human rights is a key consideration in my investment decisions.	400	3.850	1.012
I prefer investing in companies that provide training and development opportunities for their employees.	400	3.860	0.939
Organizations promoting work-life balance and equal opportunity appeal to me as an investor.	400	3.738	1.008
I am guided by the quality and safety of products when making investment choices.	400	3.848	0.996

I consider a company's commitment to social responsibility as essential in investment evaluation.	400	3.708	1.058
I place high importance on board independence and accountability in companies I invest in.	400	3.810	1.209
Well-organized and effective board structures influence my investment decisions.	400	3.863	0.990
I prefer companies that maintain transparent and rigorous financial reporting standards.	400	3.718	1.123
A properly functioning audit committee is an important governance aspect in my investment choices.	400	3.945	0.905
I consider auditor independence essential when evaluating investment options.	400	3.758	0.980
I support performance-based executive compensation as a key governance practice.	400	3.703	0.996
Strong anti-corruption policies play a significant role in shaping my investment preferences.	400	3.983	0.902
I value companies that uphold equal rights for all shareholders.	400	3.718	1.044
I am more inclined to invest in companies that integrate ESG considerations into their core business strategies.	400	3.938	0.967
I believe robust ESG practices contribute to long-term and sustainable financial returns.	400	3.878	1.096
ESG factors are an important part of my investment decision-making process.	400	4.040	0.866
I am willing to accept lower short-term returns in favor of ESG-aligned investments.	400	3.950	0.956
Sound ESG practices help reduce the risks associated with investment decisions.	400	3.948	0.973
Corporate governance practices significantly impact my investment choices.	400	3.885	0.972
Transparency and clarity in ESG initiatives make a company more attractive to me.	400	4.100	0.968

I believe ESG factors positively influence a company's overall financial performance.	400	3.733	1.210
EV	400	3.774	0.664
SOC	400	3.876	0.641
GV	400	3.814	0.668
ID	400	3.936	0.686
Valid N (listwise)	400		

Correlations

		EV	SO	GV	ID
EV	Pearson Correlation	1	.604**	.405**	.425**
	Sig. (2-tailed)		0.000	0.000	0.000
	N	400	400	400	400
SO	Pearson Correlation	.604**	1	.724**	.537**
	Sig. (2-tailed)	0.000		0.000	0.000
	N	400	400	400	400
GV	Pearson Correlation	.405**	.724**	1	.514**
	Sig. (2-tailed)	0.000	0.000		0.000
	N	400	400	400	400
ID	Pearson Correlation	.425**	.537**	.514**	1
	Sig. (2-tailed)	0.000	0.000	0.000	
	N	400	400	400	400

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

Regression Analysis

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.583[a]	0.340	0.335	0.55946

a. Predictors: (Constant), GV, EV, SOC

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	63.923	3	21.308	68.078	.000[b]
	Residual	123.944	396	0.313		
	Total	187.868	399			

a. Dependent Variable: ID

b. Predictors: (Constant), GV, EV, SOC

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.216	0.195		6.244	0.000		
	EV	0.179	0.053	0.174	3.381	0.001	0.633	1.581
	SOC	0.248	0.073	0.232	3.410	0.001	0.360	2.775
	GV	0.284	0.061	0.276	4.662	0.000	0.475	2.107

a. Dependent Variable: ID

PAPER NAME

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