

STRUCTURAL EQUATION MODELLING OF ESG FACTORS AND INDIVIDUAL INVESTMENT DECISIONS – THE INDIAN CASE

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Abstract

ESG denotes corporate sustainable development. Traditionally investors took investment decisions solely based on the financial performance of the company, but now they consider several environmental and social factors as well. ESG is a key deciding factor for investors who are socially aware and responsible. The study examines whether environmental, social and governance factors influence investors' investment decisions or not. A primary survey was conducted and responses of 576 individuals were collected with the help of a structured questionnaire. The hypothesis posited that there is no statistically significant association between sustainability issues and decisions of an individual concerning investment. The data was compiled, coded, and analysed using SPSS and Jamovi. The interrelationships between the variables have been checked by employing a structural equation model. The results of the research exhibit that people focus more on governance factors while making decisions about investment. This portrays the behavioural aspects of the people who are not so concerned about social and environmental parameters while making investment decisions. The significance of governance factors emphasizes on the need for setting up a more transparent legal and taxation framework. This research shows a direction to the policymakers regarding the specific sustainability issues to focus on.

Keywords: Sustainability, ESG, Investment, Structural Equation Modelling, India

Introduction

The global economy and more specifically the corporate world is greatly triggered by the worsening environmental conditions and hence 'ESG' as a component of 'sustainable development' has gained traction among the masses (Sultana et al., 2018). ESG defines the standard of corporate sustainable development (Friede et al., 2015). ESG is the key deciding

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factor for investors who are socially aware and responsible. Investors are moving forward by emphasizing on these factors having social and environmental impacts to analyse and recognize the specific investment and growth opportunities and pointing the material risks related to the decisions (Seth et al.,2021). Companies are adopting transparency of their operations to attract investors (Barber & Odean, 2013). Systematic volatility in stock prices can be enhanced through better management of ESG concerns (Wang et al., 2023). Cross-country analysis portray that non-financial macroeconomic factors are related with investment returns (Ang & Piazzesi, 2003; Naik, & Padhi, 2012). ESG is a frequently researched qualitative factor in analysing the financial position (Velte, 2019; Przychodzen, et al., 2016; Lee, et al., 2020). ESG information encompasses proper disclosure of issues relating to sustainability of a company (Park & Oh, 2022).

Investors adopt various strategies to gain information about a company while making investing decisions. Traditionally investors took investment decisions solely based on the financial performance of the company, but now they consider several environmental and social factors as well (Park & Oh, 2022). UNPRI mentions that an accountable investor must not negate ESG considerations while making investment decisions (Fu & Li, 2023). By directing investment towards environmentally friendly initiatives, investors can boost a corporate sustainable future (Kindmark & Surtevall, 2023). The tally of sustainable investing went up by \$4.3 trillion from 2018 to 2020 as per the reports of the Global Sustainable Investment Alliance (D'Amato & Korhonen, 2021). ESG investment considers qualitative concerns along with the financial factors (European SRI Study, 2014). ESG investment decisions is gaining popularity as the information provided by the ESG information provides a transparent scenario regarding the sustainability of an entity (Verheyden et al., 2016). Stakeholders are being cautious about the ESG problems as the companies not abiding by the ESG standards face the problems of damaged reputation and expensive legal fees (Sultana et al., 2017). Thus, the entities must prioritize ESG standards (Rounok et al., 2023). Investors of Tunisia take into account ESG information before making their investment decisions (Khemir et al., 2019).

Though IMF expects India to hold the fourth position in the world in terms of GDP by 2027 (World Economic Forum, 2022), India is ranked 180th in the world in terms of Environmental Performance Index (EPI, 2022), 111th in terms of Social Progress Index (SPI,2024), 91st in terms of Global Governance Index (GGI, 2023), which accentuates the need to address ESG factors for ensuring sustainable development. Sood et al., (2023) conducted a study in India

and found that governance factors have the highest impact on investor's decision making followed by environmental and social factors. Mandal & Mitra (2023) conducted a study based on respondents of Kolkata to investigate into the role of corporate sustainability issues concerning ESG in making decisions pertaining to investment. This study serves as a motivation for conducting this research. Thus, our study strives to investigate into the effect of sustainability issues on investment decisions.

Literature Review

Socially Responsible Investments

Socially responsible investments are a new and emerging avenue with high demand and low supply (Dorfleitner & Utz, 2013). The motivations behind socially responsible investments are social conscience and health issues; environmental issues though an important aspect does not drive these investments (Gladish et al., 2012). Studies conducted on socially responsible investments have revealed that this category of investments, though significantly affected by investment volume and investment avenues, is not affected by the educational level of investors (Dorfleitner & Utz, 2013).

ESG: Concept

ESG issues were first mentioned in a 2004 UN Report (Who Cares Wins, 2004), which suggested harmonization of issues relating to sustainability in corporate decisions pertaining to investment. The ESG principle has its origins in responsible investment (Li et al., 2021). The social impact of an investment decision is also determined through issues concerning sustainability. Thus, ESG as an investment principle aims to achieve long-term growth (Daugaard, 2020).

ESG and Firm Value

Various studies on ESG and firm value have found significant positive relations between the former and the latter (Fu et al., 2024, Yoon et al., 2018, Giannopolous et al., 2022), signifying sustainable industries lead to corporate success. Individual social and governance scores showed a positive correlation with firm value, whereas a negative correlation was found for environmental score (Aydognus, 2022). This implied that financial motivations are required to encourage environmental practices in corporates.

ESG and Firm Performance

Higher ESG scores leads to significant improvement in performance (Fu et al., 2023, Abdi et al., 2018, Giannopolous et al., 2022). This implies that corporate investment in better governance structures, environmental protection and employee welfare is likely to enhance the corporate performance (Lucia et al., 2020).

ESG and Investment Performance

Papers on investment performance and ESG scores portray a statistically evident and direct relation between the former and the latter (Kulal et al., 2023). Governance score is directly associated with investment performance, whereas environmental score negatively affects investment performance, and social score is found to have no significant relation with investment performance (Parikh et al., 2023). This suggests that investors should consider corporate sustainability issues.

ESG Factors Affecting Investment Decisions

Various studies have explored factors affecting investment decisions. Environmental factors like waste management, deforestation, biodiversity (Aich et al., 2021), pollution, sustainability (Ahmad et al., 2023), greenhouse emissions (Park & Jang, 2021) play a significant role in investment decisions. Social factors like human rights, employee relationships (Aich et al., 2021), corporate social responsibility (Ahmad et al., 2023), and working environment (Park & Jang, 2021) are also observed to impact investors' decisions. Governance factors like corporate policies (Aich et al., 2021), governance structure, disclosure transparency (Ahmad et al., 2023), board structure and board committees (Park & Jang, 2021) significantly influence shareholding decisions.

Relative Importance of ESG Factors on Investment Decisions

The strongest preference has been given to governance factors in numerous studies (Sultana et al., 2018, Sood et al., 2023, Mehwish et al, 2022) indicating the importance of governance factors for investors. The factor with the second significant preference stands as social factors (Khemir et al, 2018, Outouzzalt et al, 2022, Sultana et al., 2018), showing it as a relatively less important criterion for investment decision-making. Environmental factors' influence on investor behavior is found to be minimal (Mehwish et al., 2022, Rounak et al., 2023) or

unimportant (Outouzzalt et al., 2022, Khemir et al., 2018), implying its relative insignificance to investors.

Based on the above surveys of literature, it can be stated that very few studies have focused on the interconnection between sustainability issues and investment decisions of an individual. Furthermore, very few studies pertinent to this area was conducted based on India and that too with a very less sample size. We have tried to address this gap with a good sample size and have also applied structural equation modelling technique to analyse their inter-relationship.

Hypotheses

Environmental factors and Investment Decisions

The theoretical bases for the assessing the relationship between environmental factors and investment decisions are signalling theory and stakeholders theory.

Companies with strong environmental performance are often perceived as less susceptible to environmental risks such as regulatory fines, litigation, resource scarcity, and reputational damage. Proactive environmental management can also insulate firms from future carbon taxes, water restrictions, or shifts in consumer preferences towards sustainable products. This reduced risk profile translates into lower perceived risk by investors. Studies by institutions like MSCI and Sustainalytics consistently highlight that companies with poor environmental practices face higher probabilities of “tail risks” and negative shocks. Efforts to improve environmental performance often led to greater operational efficiency. This includes optimizing resource use (e.g., energy, water), reducing waste, and streamlining production processes. Furthermore, the pursuit of environmental sustainability can spur innovation in products, processes, and business models, creating new market opportunities and competitive advantages. Improved efficiency and innovation can lead to higher profitability and sustainable growth, which in turn enhances investor confidence and lowers the cost of capital. Investors are willing to pay a premium for companies demonstrating long-term resilience and growth potential. There is a growing pool of “green” or “responsible” capital actively seeking environmentally conscious investments. This includes ESG funds, impact investors, and institutions with mandates for sustainable investing. Companies with strong environmental credentials are more attractive to this segment of investors, potentially leading to increased

demand for their securities and more favourable terms on green bonds or sustainability-linked loans. Environmentally proactive companies are often better positioned to anticipate and adapt to evolving environmental regulations. We have provided the above explanation in accordance with the stakeholders' theory and the signalling theory.

A statistically evident negative impact of Environmental disclosure was found on the cost of capital initially, which later became insignificant (Khanchel & Lassoued, 2022). More investment in environmental factors initially reduces the value of the bank, but later on the value is enhanced (Ersoy et al., 2022). Investors consider environmental factors to make their portfolio while investing (Khemir et al., 2019). Addressing environmental issues and working on it enhances profitability in the sectors pertaining to finance (Gholami et al., 2022). Environmental factors such as management of waste, deforestation and biodiversity affect investment decisions (Aich et al., 2021).

H₁: A statistically evident relationship exists between Investment and Environmental factors.

Social factors and Investment Decisions

The theoretical bases for the assessing the relationship between social factors and investment decisions are theories of behavioural finance, sociological and psychological mechanisms.

Investors often follow the actions of a larger group, even if those actions contradict their private information. This is a direct social influence, driven by fear of being wrong alone or the belief that the crowd possesses superior information. This reflects the aspect of herd behaviour. Investment ideas or sentiments can spread rapidly through social networks. Early adopters influence others, creating a cascade where later investors make decisions based on observing prior choices rather than independent analysis. This reflects the aspect of social contagion or information cascades. Social discussions, media narratives, or prominent examples within one's social circle can make certain investment opportunities or risks more "available" to mind, leading to biased decisions. This reflects the availability heuristic or social amplification angle. We have provided the above explanation in accordance with the theories of behavioural finance.

Individuals learn behaviours by observing others. In an investment context, this means learning about investment strategies, asset classes, or even risk management from family, friends, or

online communities. This reflects the social learning theory. Pressure to conform within a social group can lead individuals to make investment decisions that align with the group consensus, even if they privately have doubts. This can suppress dissenting opinions and lead to suboptimal collective outcomes (e.g., speculative bubbles). This reflects the conformity and group thinking angle. We have provided the above explanation in accordance with the sociological and psychological mechanisms.

The minimum rate of return expected by the stakeholders increases due to social disclosure over a period of time (Khanchel & Lassoued, 2022). More amount of social disclosures is likely to reduce the performance in terms of return generated (Buallay, 2019). Addressing social issues and working on it enhances profitability in the sectors pertaining to finance (Gholami et al., 2022). Social factors are considered as important criteria while making investment decisions (Outouzzalt et al., 2022).

H₂: A statistically evident relationship exists between Investment and Social factors.

Governance factors and Investment Decisions

The theoretical bases for the assessing the relationship between governance factors and investment decisions are agency theory and signalling theory.

The agency theory is the primary theoretical lens through which the governance-investment link is often viewed. Investment decisions inherently involve the allocation of resources by agents (management) on behalf of principals (shareholders). Poor governance mechanisms (e.g., weak board oversight, misaligned executive compensation) can lead to agency problems, where management prioritizes its own interests (e.g., empire building, risk aversion) over shareholder wealth maximization. This directly impacts investment quality, project selection, and ultimately, firm performance.

As per the signalling theory, good governance acts as a strong positive signal to the market. Firms with strong governance are perceived as more trustworthy, less risky, and more committed to long-term value creation. This positive signal can translate into a lower cost of capital, making it easier for the firm to finance profitable investment opportunities and attracting more discerning investors.

The minimum rate of return expected by the stakeholders is found to be inversely related with Governance Disclosure in the initial years, post which a direct relationship is observed between them (Khanchel & Lassoued, 2022). More number of disclosures regarding governance enhances the performance and worth of the banks (Bualay, 2019). Governance Disclosure is directly associated with the profitability of firms in both financial and non-financial industry and such association is statistically evident (Gholami et al., 2022). Governance factor has been observed as the most important factor in influencing investment decisions (Mehwish et al., 2022)

H₃: A statistically evident relationship exists between Investment and Governance factors.

Methods

Data Collection

A structured questionnaire prepared on a five-point Likert scale basis has been used to collect the responses. The questionnaire comprised of questions regarding investment, environmental, social, and governance factors.

Sample Design

A primary survey of the people from all the states of India was carried out. The sample size for the study has been determined as 576. The responses have been collected by employing stratified proportionate random sampling method.

Variables Considered

i) Investment Variables

- I1: Investing Experience
- I2: Purpose of Investment
- I3: Investment Horizon
- I4: Investment Amount

ii) Environmental Variables

- E1: Climate Risk

- E2: Waste Management
- E3: Resource Optimization
- E4: Emission Reduction

iii) Social Variables

- S1: Workplace Safety
- S2: Community Relations
- S3: Human Rights
- S4: Employee Development

iv) Governance Variables

- G1: Board Independence
- G2: Financial Reporting
- G3: Audit Committee
- G4: Auditor Independence

The interplay of risk and return is fundamental to investment decision-making. Each investment decision variable influences this dynamic, often requiring investors to balance potential gains against potential losses. Let us discuss these dimensions with respect to the given variables:

I1: Investing Experience

Risk Dimensions:

Less experienced investors are more susceptible to emotional decision-making (e.g., panic selling, FOMO – Fear of Missing Out), which can lead to suboptimal outcomes and increased risk. Inexperienced investors may not adequately research investments, understand underlying risks, or recognize red flags, potentially leading to investments in highly speculative or fraudulent schemes. Without understanding modern portfolio theory, inexperienced investors might concentrate their holdings, exposing themselves to idiosyncratic risk. Sophisticated

financial instruments (e.g., derivatives, leveraged ETFs) carry higher risks that less experienced investors may not fully grasp.

Return Dimensions:

A lack of experience can lead to portfolios that are not efficiently structured to maximize returns for a given level of risk. Inexperienced investors may fail to identify and capitalize on profitable investment opportunities due to a limited understanding of market trends or valuation. Frequent trading or poor execution due to inexperience can erode returns through higher fees and commissions. While they might sometimes achieve high returns through sheer luck, the probability of consistently achieving strong risk-adjusted returns is lower for inexperienced investors.

I2: Purpose of Investment

The purpose of investment directly shapes the acceptable risk-return trade-off.

Risk Dimensions:

Investors primarily seeking income (e.g., retirees) often prioritize stability and predictable cash flows. They might gravitate towards lower-risk, income-producing assets like bonds or dividend stocks, even if it means sacrificing higher capital appreciation potential. If the sole purpose is to protect existing capital from inflation or loss, risk aversion is very high. This might involve investments in highly liquid, low-volatility assets like treasury bills or money market funds. For aggressive wealth growth or speculative ventures, investors might accept very high levels of risk in pursuit of potentially extraordinary returns. This could involve venture capital, early-stage startups, or highly volatile commodities.

Return Dimensions:

The expected return must align with the investment purpose. A retirement goal requiring significant capital accumulation will necessitate a higher return target than saving for a new appliance. For short-term, critical needs, the focus is on a high probability of achieving a specific return (even if modest) rather than aiming for maximum possible returns. Long-term goals benefit significantly from compounding returns, allowing for the potential of higher overall wealth accumulation even with moderate annual returns. For income-focused purposes, the primary return metric is yield (e.g., dividend yield, bond yield), which directly contributes to the investor's cash flow needs.

I3: Investment Horizon

The investment horizon, or the length of time an investment is held, is a critical determinant of acceptable risk and expected return.

Risk Dimensions:

Short-term investors are more exposed to market fluctuations (volatility). A significant downturn shortly before the horizon ends can severely impact capital. Some assets may not be easily convertible to cash without significant price impact in the short term. Generally, less risk is acceptable for short horizons to protect capital. Over long periods, the impact of short-term market volatility tends to diminish. Historical data shows that equities, while volatile in the short term, have consistently outperformed other asset classes over long periods. Investors can afford to take on more risk, including investing in growth-oriented assets, as there is ample time for recovery and compounding. While not directly tied to the horizon, longer horizons increase exposure to inflation, which can erode purchasing power. Growth assets are often chosen to combat this.

Return Dimensions:

Due to the need for capital preservation and liquidity, short-term investments typically offer lower expected returns (e.g., money market funds, short-term bonds). Historically, equities and other growth assets have delivered the highest returns over long periods due to compounding and economic growth. Reinvesting returns over a long period significantly boosts overall wealth accumulation. Long-term investors can benefit from the full growth cycle of companies and economies.

I4: Investment Amount

The investment amount influences access to certain investment opportunities and the potential impact of fees, thereby affecting risk and return.

Risk Dimensions:

With a small amount, it's harder to achieve adequate diversification across a wide range of individual stocks, bonds, or asset classes. This increases idiosyncratic risk. Brokerage fees, fund expense ratios, or advisory fees can represent a larger percentage of a smaller investment, making certain investments less viable or disproportionately risky if they erode capital quickly.

Some actively managed funds or alternative investments have high minimum investment requirements, barring smaller investors from potentially diversified or specialized strategies. While the percentage loss is the same, the absolute monetary loss from a downturn is much greater with a larger investment. This can psychologically impact an investor, even if they are well-diversified.

Return Dimensions:

While percentage returns are consistent, a larger initial investment yields a significantly larger absolute return over time due to the power of compounding. This provides greater “financial acceleration.” Larger investment amounts often provide access to institutional-class funds with lower expense ratios, private equity, hedge funds, or real estate opportunities that have high minimums. These can potentially offer different risk-return profiles. Investors with substantial capital may have more leverage to negotiate lower fees with financial advisors or asset managers, thereby improving net returns. Larger amounts allow for direct investment in a broader range of assets (e.g., purchasing a property, investing directly in a private company), potentially offering unique return streams. For a larger investment, fixed transaction fees (e.g., per-trade commissions) become a smaller percentage of the overall investment, thus having a less dilutive effect on returns. Some mutual funds or ETFs offer lower expense ratios for larger investment tiers, or institutional shares are only available to large investors.

Thus, each of these investment decision variables plays a crucial role in defining an investor’s unique risk-return profile. Understanding their interaction is essential for constructing a well-aligned and effective investment strategy. Investors must continuously assess these factors and adjust their portfolios as their circumstances or market conditions evolve.

Tools Used

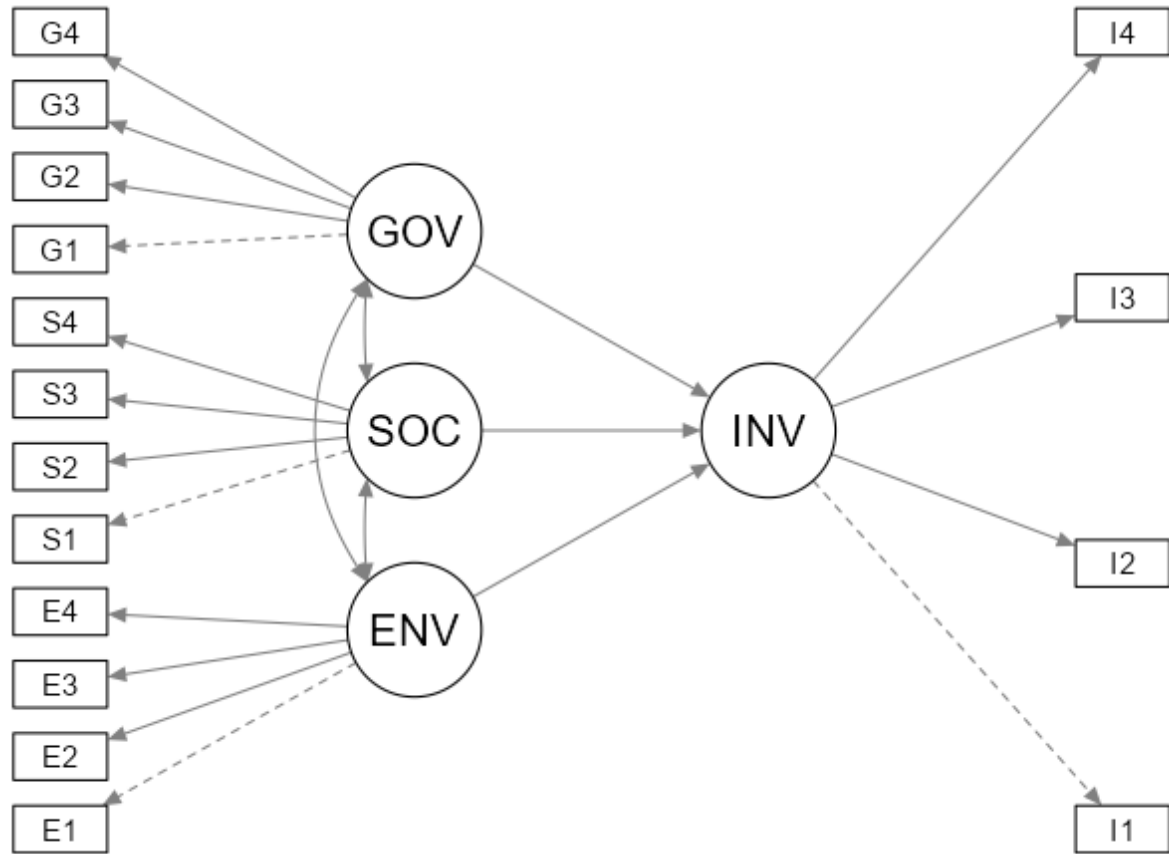
The data was compiled, coded, and analysed using SPSS and Jamovi. We checked the interrelationships between the variables by employing a structural equation model. We have checked the reliability of the two constructs using Cronbach’s alpha and McDonald’s omega. We have employed Harman’s single factor test to check whether there is a problem of common method variance. Thereafter, we have checked whether there is a problem of endogeneity by applying Gaussian copula test of endogeneity. The convergent validity has been checked using AVE. We have used various fit indices to test the goodness of fit between the baseline model and user model. We explained the association between the latent variables and the observed

variables using a measurement model. The relationship between the two latent variables in the model was explained using a structural model. We have shown the measurement model and the structural model using a path diagram.

Proposed Model

The purpose of investment, time period of investment, investment amount and the experience involved are important constituents of investment (Sultana et al., 2018). Environmental factors include climate risk, waste management, resource optimization and reduction of emission (Sultana et al., 2017). Workplace safety, community relations, human rights and employee development are factors of social factors (Who Cares Wins – Connecting Financial Markets to a Changing World, 2004). Board Independence, financial reporting, audit committee and auditor independence are variables of governance factors (Sultana et al., 2017). Based on these literatures, a model has been proposed which has been shown below.

Figure 1



Source: Author's own diagram

Results & Discussions

Table 1: Reliability Test

Variable	No. of Items	α	ω	AVE
INV	4	0.801	0.797	0.561
ENV	4	0.893	0.861	0.759
SOC	4	0.841	0.853	0.705
GOV	4	0.884	0.870	0.759

Source: Authors' own tabulation

Cronbach's alpha of 0.7 or above indicates the acceptability of reliability (Cronbach, 1951). Cronbach's alpha has been calculated for the following constructs, namely ESG factors and investment. Table 1 depicts that the Cronbach's alpha for ESG factors is more than 0.8 and for investment is 0.801 which proves that these constructs are reliable.

McDonald's omega of 0.70 or above indicates the acceptability of consistency (McNeish, 2018). The value of McDonald's omega is more than 0.7 for ESG factors indicating consistency for this construct, whereas value for investment is 0.797 indicating its acceptability.

Average Variance Extracted (AVE) for all variables is above 0.5 which indicates convergent validity (Fornell & Larcker, 1981).

Table 2: Harman's Single Factor Test for Common Method Variance

Fact or	Total Variance Explained					
	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	10.898	38.922	38.922	10.470	37.392	37.392
2	1.909	6.817	45.739			
3	1.644	5.872	51.611			
4	1.376	4.914	56.525			
5	1.224	4.370	60.895			
6	1.092	3.898	64.793			
7	1.055	3.766	68.559			
8	.906	3.234	71.793			
9	.822	2.936	74.729			
10	.781	2.789	77.519			
11	.716	2.558	80.077			
12	.667	2.383	82.459			
13	.601	2.146	84.605			
14	.546	1.949	86.554			
15	.477	1.705	88.260			
16	.427	1.527	89.786			
17	.393	1.405	91.191			
18	.373	1.333	92.524			
19	.304	1.086	93.610			
20	.293	1.048	94.658			
21	.265	.948	95.606			
22	.252	.899	96.505			
23	.223	.798	97.303			
24	.217	.774	98.077			
25	.177	.631	98.707			
26	.148	.528	99.235			
27	.116	.415	99.650			
28	.098	.350	100.000			
Extraction Method: Principal Axis Factoring.						

Source: Authors' own tabulation

As data is collected from the same respondents for all variables, it is necessary to check whether a single factor accounts for a large amount of variance in the data. This denotes the problem of

common method variance (CMV). The presence of common method variance indicates that the observed relationships between might be artificially inflated, which might lead to biased results. Therefore, we have applied Harman's single factor test. Table 2 displays that each factor explains 37.392% of the variance, which is less than 50%. Thus, we can assert that there is no error of common method variance in this case.

Table 3: Assessment of Endogeneity test using Gaussian Copula Approach

Test	Construct	Coefficient	p value
Gaussian copula of model 1 (endogenous variable: E Score)	E Score	0.408	0.134
	S Score	0.257	0.546
	G Score	0.079	0.034
	cE Score	0.007	0.775
Gaussian copula of model 2 (endogenous variable: S Score)	E Score	0.418	0.135
	S Score	0.269	0.551
	G Score	0.008	0.024
	cS Score	0.021	0.293
Gaussian copula of model 3 (endogenous variable: G Score)	E Score	0.435	0.141
	S Score	0.276	0.554
	G Score	0.006	0.034
	cG Score	0.009	0.731
Gaussian copula of model 4 (endogenous variables: E Score, S Score)	E Score	0.429	0.137
	S Score	0.272	0.553
	G Score	0.076	0.032
	cE Score	0.009	0.731
	cS Score	0.051	0.766
Gaussian copula of model 5 (endogenous variables: E Score, G Score)	E Score	0.456	0.156
	S Score	0.297	0.594
	G Score	0.087	0.041
	cE Score	0.026	0.322
	cG Score	0.078	0.456
Gaussian copula of model 6 (endogenous variables: S Score, G Score)	E Score	0.459	0.157
	S Score	0.292	0.591
	G Score	0.086	0.041
	cS Score	0.012	0.232
	cG Score	0.065	0.398
Gaussian copula of model 7 (endogenous variables: E Score, S Score, G Score)	E Score	0.461	0.158
	S Score	0.298	0.595
	G Score	0.089	0.044
	cE Score	0.028	0.334

	cS Score	0.014	0.245
	cG Score	0.067	0.402

Source: Authors' own tabulation (Note: c denotes the copula term in model)

Our assessment of potential endogeneity follows Hult et al.'s (2018) systematic procedure, starting with the application of Park and Gupta's (2012) Gaussian copula approach, using the latent variable scores of the original model estimation as input. The results in Table 3 display that none of the Gaussian copulas is significant (p value > 0.05). Thus, we conclude that endogeneity is not present in this study.

Table 4: Fit Indices

Index	Accepted Values	Sources	Observed Values
RMSEA	0.05 - 0.08: Good fit	Byrne, 1994; Awang, 2012	0.071
CFI	> 0.90	Hu & Bentler, 1999	0.996
TLI	> 0.90	Schumacker & Lomax, 2004	0.996
NNFI	> 0.90	Schumacker & Lomax, 2004	0.994
GFI	> 0.95	Hu & Bentler, 1999	0.998
AGFI	> 0.95	Abraham et al., 2019	0.992
IFI	> 0.90	Abraham et al., 2019	0.995
SRMR	< 0.08	Byrne, 1994	0.043

Source: Authors' own tabulation

Here, the RMSEA and SRMR values are 0.071 and 0.043 respectively, which implies a good fit. Besides, it can be observed that the values of CFI, TLI, NNFI, IFI are 0.996, 0.996, 0.994 and 0.995 respectively, which implies a good fit as all the values are greater than 0.90. Also, GFI and AGFI values are observed as 0.998 and 0.992 which signify a very good fit.

Table 5: Measurement Model

Latent	Observed	B (beta)	p-value
INV	I1	0.887	< .001
	I2	0.455	< .001
	I3	0.540	< .001
	I4	0.718	< .001
ENV	E1	0.822	< .001
	E2	0.897	< .001
	E3	0.896	< .001
	E4	0.865	< .001
SOC	S1	0.877	< .001
	S2	0.773	< .001
	S3	0.875	< .001
	S4	0.831	< .001
GOV	G1	0.782	< .001
	G2	0.933	< .001
	G3	0.901	< .001
	G4	0.862	< .001

Source: Authors' own tabulation

Table 5 showcases that beta values show the standardised factor loadings whereas the corresponding p-values show its significance. The observed variables are found to have significant factor loadings on the latent variables, such as, investment, environmental, social and governance factors.

Table 6: Structural Model

Dependent	Predictor	B (beta)	p-value
INV	ENV	0.1629	0.189
INV	SOC	0.0130	0.945
INV	GOV	0.5353	0.001

Source: Authors' own tabulation

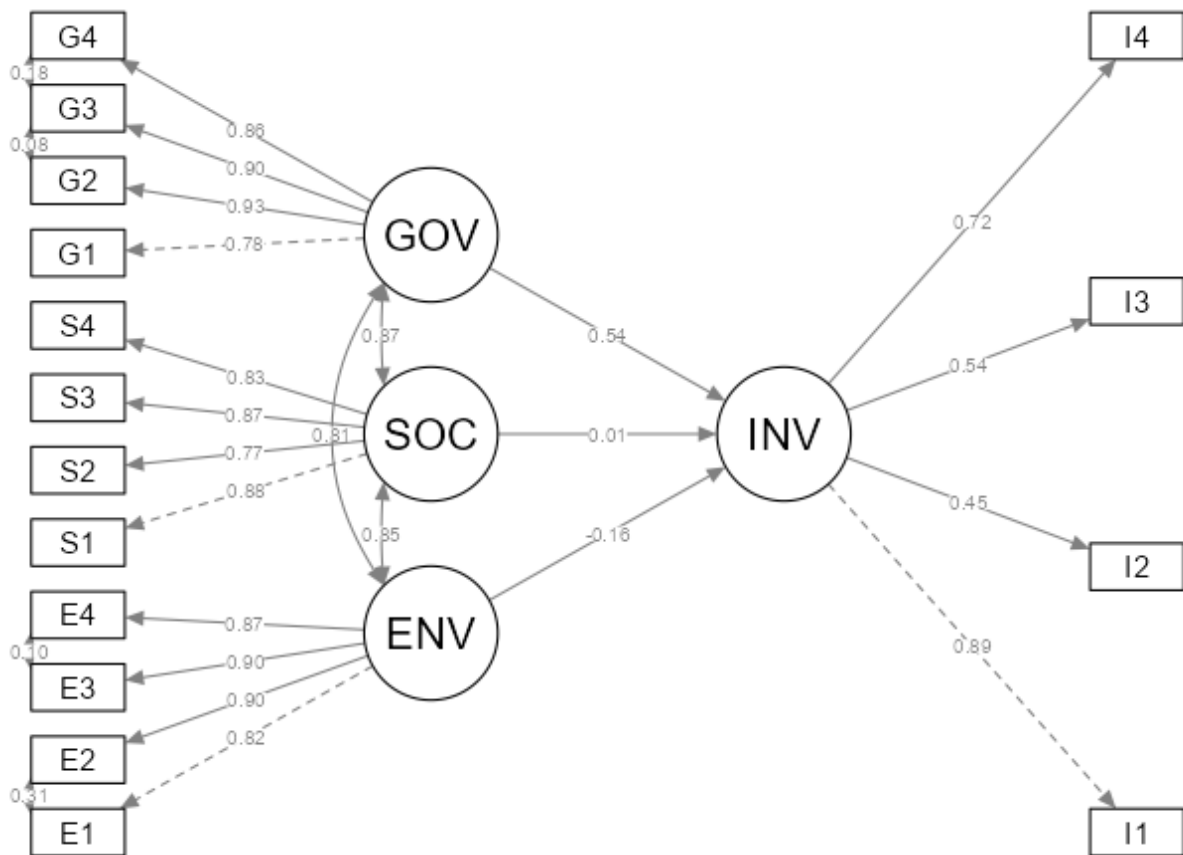
Table 6 portrays that the association between investment and environmental factors, and between investment and social factors is not statistically evident, thereby resulting in the rejection of H₁ and H₂. The corresponding beta value of 0.5353 implies the existence of a

noticeable positive association between investment and governance factors, which showcases that as the governance score of a company improves, the investors will be more likely to invest in that particular stock (Sultana et al., 2018). Thus, H_3 is accepted. It is clear that the people of India do not consider environmental and social factors while investing in a particular company, rather they take into consideration the governance factors while making their investment decisions.

Figure 2 represents the path diagram, which displays the relationships between the variables of Investment(I) and ESG factors.

Investment (INV) is a latent variable that is represented through observed factors I1: Investing Experience, I2: Purpose of Investment, I3: Investment Horizon, and I4: Investment Amount. The latent variable, Environmental Factor (ENV) is represented through observed factors E1: Climate Risk, E2: Waste Management, E3: Resource Optimization, and E4: Emission Reduction. The latent variable, Social Factor (SOC) is represented through observed factors S1: Workplace Safety, S2: Community Relations, S3: Human Rights, and S4: Employee Development. The latent variable, Governance Factor (GOV) is represented through observed factors G1: Board Independence, G2: Financial Reporting, G3: Audit Committee, and G4: Auditor Independence.

Figure 2



Source: Authors' own diagram

The path ENV→INV indicates the effect of environmental factors on investment decisions. As the p-value is 0.189, the effect is statistically insignificant. The path SOC→INV indicates an insignificant impact of social factors on decisions pertaining to investment as the associated p-value is more than 0.05 (0.945). The path GOV→INV indicates a significant impact of governance factors on decisions pertaining to investment as the associated p-value is less than 0.01 (0.001). The relevant β (beta) coefficient is positive (0.5353), suggesting that better governance practices lead to higher shareholder investments in that firm. Good governance signals transparency, accountability, and ethical management. When a company has strong governance practices, investors are more confident that their capital will be managed responsibly, that financial reporting will be accurate, and that their rights as shareholders will be protected. This reduces perceived risk. Poor governance can lead to agency problems, where management acts in its own self-interest rather than the shareholders'. Strong governance mechanisms (e.g., independent board, robust audit committees, fair executive compensation)

help align the interests of management with those of shareholders, reducing the potential for value destruction. Companies with good governance are often seen as more sustainable in the long run. They are less prone to scandals, regulatory penalties, and operational inefficiencies that can erode shareholder value. Investors seeking stable, long-term returns will naturally gravitate towards such companies. High governance scores can act as a positive signal to the market, indicating a well-run and reliable company. This can attract a broader pool of investors, including institutional investors who often have mandates to invest in companies with strong ESG (Environmental, Social, Governance) profiles.

Thus, it is clear that the investors of India prioritize governance over environmental and social factors. Investors in India might be more focused on traditional financial fundamentals and corporate governance as primary indicators of a company's health and investment viability. Environmental and social factors might be perceived as less directly impactful on immediate returns. There might be a lower level of awareness or education regarding the long-term financial risks and opportunities associated with environmental and social factors among the general investor population in India. The concept of "impact investing" or "sustainable investing" might not be as deeply ingrained. Investors might find it easier to access and interpret governance-related data (e.g., board structure, audit reports) compared to comprehensive and standardized environmental or social performance data. Perhaps past experiences with corporate scandals, mismanagement, or lack of transparency have made governance a more immediate and pressing concern for investors in the region. They might prioritize avoiding companies with "shady" practices. While India has a developing regulatory framework for ESG reporting, the enforcement and investor focus might still lean more heavily on traditional corporate governance compliance. If investors in India tend to have shorter investment horizons, they might prioritize factors that they believe will have a more immediate impact on stock prices, such as solid management and financial integrity, rather than long-term environmental or social risks that may materialize over decades. If the local economy is not heavily exposed to industries with significant environmental or social controversies, these factors might seem less relevant to investors.

The findings highlight a clear and strong preference among investors for good corporate governance. This suggests that these investors are rational actors who prioritize factors that directly impact a company's financial health, stability, and integrity. The relative de-emphasis

on environmental and social factors, while contrasting with global trends, could be attributed to a combination of market maturity, investor awareness, past experiences, and the practicalities of investment decision-making in the region. For companies operating in India, this finding underscores the critical importance of maintaining robust governance practices to attract and retain investor confidence.

Conclusion

People focus more on governance factors while making decisions pertaining to investment (Karmacharya, 2023; Alduais et al., 2023; Sultana et al., 2017; Shahid & Abbas, 2019). This statement aligns with our findings. Investors' prioritization of governance over social and environmental factors, despite the growing emphasis on ESG (Environmental, Social, and Governance) investing, can be explained through the lens of established behavioural finance theories, which are explained below.

The theory of Planned Behaviour suggests that an individual's behavioural intention is influenced by three key factors: attitude towards the behaviour, subjective norms, and perceived behavioural control. For many investors, strong governance is directly and tangibly linked to financial performance and risk mitigation. A well-governed company is perceived as more stable, less prone to scandals, fraud, or mismanagement, and ultimately more likely to deliver consistent returns. This creates a strong positive attitude towards prioritizing governance, as it directly impacts their primary goal of financial gain and loss avoidance. In contrast, while social and environmental factors are increasingly recognized as important for long-term sustainability, their direct and immediate impact on financial returns can be less clear or more difficult to quantify for individual investors. The theory of Subjective Norms (social and market expectations) states that while there is a growing societal expectation for companies to address social and environmental issues, the investment community, particularly traditional finance, has historically emphasized governance as a core indicator of financial health. Fund managers, analysts, and financial advisors often highlight governance structures, board independence, and executive compensation as crucial due diligence points. This creates a subjective norm where prioritizing governance is seen as a "financially savvy" or "responsible" approach within the investment sphere. While the norms around "S" and "E" are evolving, "G" often remains the bedrock of perceived financial prudence. The theory of Perceived

Behavioural Control (ease of assessment and influence) states that investors may feel they have more control over assessing and influencing governance compared to broader social and environmental issues. Governance metrics are often more standardized and transparent (e.g., board diversity, audit committee independence, shareholder rights). Investors can more easily understand and react to red flags in governance. Conversely, evaluating a company's true social impact (e.g., supply chain ethics, community relations) or environmental footprint (e.g., carbon emissions, water usage) can be complex, requiring specialized knowledge and often relying on self-reported data, which may be perceived as less reliable or harder to verify. This lower perceived control over "S" and "E" can lead investors to prioritize "G." Signalling Theory posits that in situations of information asymmetry (where one party has more information than another), the more informed party sends signals to convey their quality or intentions. In the investment context, companies send signals to investors. Strong corporate governance practices act as a powerful signal to investors about a company's overall quality, transparency, and commitment to long-term value creation. A company with a robust board, independent oversight, and clear ethical guidelines signals that it is well-managed, accountable, and less likely to engage in unethical behaviour that could harm shareholder value. This signal directly addresses investor concerns about financial risk and stability. Good governance reduces information asymmetry and uncertainty for investors. It suggests that the company's financial reporting is reliable, that management is accountable, and that shareholder interests are protected. When these signals are clear and consistent, investors feel more confident in their investment. While Stakeholder Theory argues that companies should consider the interests of all stakeholders (employees, customers, suppliers, communities, and the environment) in addition to shareholders, investors' practical application often prioritizes the stakeholders whose interests are most directly tied to financial returns and risk. From an individual investor's perspective, they are primarily shareholders. Good governance is seen as the mechanism that protects their interests as owners of the company. It ensures management acts in the best interest of shareholders, preventing wealth destruction through poor decisions, excessive compensation, or lack of transparency. Many investors view strong governance as a prerequisite for effective management of social and environmental factors. Without sound governance, a company's promises or initiatives regarding social and environmental responsibility may be viewed as hollow or unsustainable. If a company lacks accountability, independent oversight, or ethical leadership, investors might doubt its ability to genuinely address environmental concerns or uphold social commitments in the long run. In this sense,

governance acts as the foundational pillar that assures investors that the company has the internal structures and integrity to manage all material risks, including those related to "E" and "S." Governance issues can lead to immediate and significant financial repercussions (e.g., regulatory fines, lawsuits, reputational damage leading to stock price declines). While social and environmental risks are increasingly recognized as material, their financial impact can sometimes be perceived as more long-term or less immediately catastrophic. Therefore, investors may prioritize governance as a more direct and immediate risk mitigation strategy. While awareness and integration of social and environmental factors are growing, behavioural biases and practical considerations can lead investors to focus on the "G" as the bedrock of a sound investment.

The study has few implications. Firstly, this research shows a path to the management of a company regarding the specific sustainability issues it should focus on. Secondly, the significance of governance factors emphasizes on the need for setting up a more transparent legal and taxation framework, as a result of which the entities will be obligated to maintain transparency in case of disclosures. Thus, the possibilities of company indulging in legal and other disputes will reduce to a great extent, thereby enhancing their governance score. Thirdly, as the investors are focusing less on social factors, the work culture is degrading day by day. Besides, unfair remuneration with respect to work done is also leading to employee dissatisfaction, finally resulting in higher employee turnover. This induces the firms to focus more on social factors. Finally, it is seen that environmental factors are also neglected to make investment decisions. Higher emission of greenhouse gases and pollution is an alarming indicator for our future. These ignorant actions are leading to the risk of climate change and therefore the environment is degrading day by day. Thus, the government should organise campaigns and awareness programs concerning environmental protection. Thus, the companies are focusing on enhancing their environmental score.

The study has few limitations. Firstly, the study is restricted to only 576 respondents. A larger sample would have given a more comprehensive picture. Secondly, the study is restricted to India only. Thirdly, only individual investors have been taken into consideration while collecting responses.

Few unfathomed areas can be explored in future. Further studies can be conducted on other developing and developed countries in order to get a more comprehensive scenario. Secondly, an industry wise and sector wise comparison can be made in future. Thirdly, institutional

investors along with individual investors can form a sample for this study in future. In future, studies can be conducted to assess whether the environmental, social and governance factors influence investment decisions with regards to type of investors, volume of investment etc.

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