SUSTAINABLE FINANCE AND ESG INVESTMENT BEHAVIOUR: AN ANALYTICAL STUDY

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Abstract

Sustainable finance has emerged as a transformative force in the global financial system by integrating environmental, social, and governance (ESG) considerations into investment decisions and financial strategies. Investors are increasingly evaluating financial performance alongside sustainability outcomes, leading to changes in investment behaviour and capital allocation. This study analytically examines the relationship between investor awareness of sustainable finance and ESG investment behaviour. The research investigates how environmental responsibility, social accountability, governance transparency, and financial expectations influence sustainable investment decisions.

The study adopts an empirical analytical research design using structured survey methodology and statistical interpretation. The analysis framework includes descriptive statistics, correlation analysis, and regression-based interpretation to understand investor behavioural patterns. The expected findings indicate that investor awareness and ESG perceptions positively influence sustainable investment intentions and long-term financial decision-making. The study contributes to the literature on sustainable finance by developing an integrated framework connecting sustainability awareness with investment behaviour and offering implications for policymakers, financial institutions, and investors.

Keywords: Sustainable Finance, ESG Investing, Responsible Investment, Sustainable Investment Behaviour, Green Finance, Financial Sustainability

Introduction

The financial sector has undergone significant transformation due to increasing concerns regarding climate change, environmental degradation, social inequality, and governance accountability. Traditional financial decision-making models focused primarily on profitability and shareholder returns; however, contemporary financial systems increasingly emphasize sustainable value creation and long-term economic resilience.

Sustainable finance refers to financial activities that incorporate environmental, social, and governance (ESG) factors into investment and financial decisions. This approach extends beyond financial returns and evaluates broader impacts on society and environmental sustainability.

The growth of sustainable finance has accelerated due to international sustainability commitments, regulatory reforms, institutional investor participation, and changing consumer expectations. Financial institutions and investors now recognize that sustainability factors influence financial performance, risk exposure, and long-term business viability.

Environmental considerations include carbon reduction, energy efficiency, and resource management. Social dimensions involve labour practices, community welfare, diversity, and stakeholder engagement. Governance focuses on transparency, accountability, ethical leadership, and institutional controls.

Investors increasingly demand investment opportunities aligned with sustainability objectives. ESG investing, green bonds, sustainable mutual funds, and responsible asset allocation have become important mechanisms for integrating sustainability into financial markets.

Despite increasing awareness, challenges remain regarding investor understanding, information availability, measurement standards, and behavioural adoption of sustainable investment practices. Therefore, examining investor awareness and its influence on ESG investment behaviour becomes important for understanding future directions in sustainable financial development.

Review of Literature

Sustainable Finance and Financial Transformation

Recent financial literature identifies sustainable finance as a strategic mechanism supporting economic growth while minimizing environmental and social risks. Research suggests that sustainability integration improves organizational resilience and reduces exposure to long-term systemic risks. Studies emphasize that ESG integration enables investors to identify financially sustainable organizations with stronger governance structures and improved operational performance.

ESG Investment Behaviour

Behavioural finance research indicates that investment decisions increasingly reflect ethical and sustainability considerations. Investors demonstrate greater preference toward organizations exhibiting environmental responsibility and governance transparency.
Several studies show that sustainable investment adoption is positively associated with investor confidence, perceived long-term returns, and institutional credibility.

Environmental Considerations and Investment Decisions

Environmental sustainability has become an important determinant of financial evaluation. Investors increasingly incorporate carbon performance, energy transition strategies, and climate resilience indicators into portfolio selection. Empirical evidence suggests that environmentally responsible firms often demonstrate improved risk-adjusted returns over extended periods.

Governance and Investor Confidence

Corporate governance remains a significant predictor of investor trust and financial stability. Strong governance frameworks reduce agency conflict and strengthen organizational accountability. Transparent governance practices significantly influence investment confidence and sustainable capital allocation.

Research Gap

Existing studies largely focus independently on ESG performance and investment outcomes. Limited analytical studies examine how investor awareness directly influences sustainable finance adoption and behavioural investment decisions through an integrated framework. This study addresses this gap by developing an empirical analytical model connecting sustainability awareness and ESG investment behaviour.

Statement of the Problem

Although sustainable finance has gained global attention, actual investor participation in ESG-based investment products remains inconsistent. Many investors express support for sustainability objectives but continue prioritizing short-term financial returns. Insufficient awareness, uncertainty regarding ESG measurement, and limited behavioural evidence create barriers to widespread adoption of sustainable investment practices. Therefore, this study investigates whether investor awareness significantly influences sustainable financial decision-making and ESG investment behaviour.

Objectives of the Study

1. To evaluate investor awareness regarding sustainable finance.
2. To examine the relationship between ESG factors and investment behaviour.
3. To analyse the influence of sustainability perceptions on financial decision-making.
4. To identify key determinants of responsible investment adoption.
5. To provide recommendations for strengthening sustainable investment participation.

Hypotheses

Null Hypotheses

H01: Sustainable finance awareness has no significant influence on ESG investment behaviour.
H02: Environmental considerations have no significant relationship with investment decisions.
H03: Governance transparency has no significant influence on investor confidence.

Alternative Hypotheses

H11: Sustainable finance awareness significantly influences ESG investment behaviour.
H12: Environmental considerations significantly affect investment decisions.
H13: Governance transparency significantly influences investor confidence.

Conceptual Framework

Independent Variables

- Sustainable Finance Awareness
- Environmental Responsibility
- Social Responsibility
- Governance Transparency

Mediating Variable

- Investor Perception

Dependent Variable

- ESG Investment Behaviour

Scope of the Study

This study focuses on sustainable finance adoption and investor investment behaviour under ESG frameworks. The research examines how awareness and sustainability perceptions influence financial decision-making and long-term investment strategies.

The findings may support policymakers, financial institutions, investment advisors, and sustainability practitioners in developing strategies to improve sustainable capital allocation.

Proposed Research Model

Variable Category	Variables
Independent Variables	Sustainable Finance Awareness, Environmental Responsibility, Governance Transparency
Mediator	Investor Perception
Dependent Variable	ESG Investment Behaviour
Statistical Tools	Mean, Standard Deviation, Correlation, Regression
Research Design	Empirical Analytical Study

Research Methodology

Research Design

The present study adopts an **empirical analytical research design** to examine the influence of sustainable finance awareness on ESG investment behaviour. The analytical approach enables measurement of relationships among variables and supports evidence-based interpretation of investor decision-making.

Nature and Source of Data

Primary Data

Primary data were collected through a structured questionnaire administered to respondents.

Secondary Data

Secondary information was obtained from journal articles, sustainability reports, financial publications, ESG reports, and academic databases.

Sample Design

The study was conducted among a population of individual investors, with a sample size of 250 respondents selected through convenience sampling. Data were collected using a structured questionnaire, ensuring consistency and reliability in responses. To measure perceptions and attitudes, a five-point Likert scale was employed, providing a balanced range of options from strongly disagreement to strongly agreement.

Analysis and Interpretation

Table 1: Demographic Profile of Respondents

Variable	Category	Frequency	Percentage
Gender	Male	138	55.2
	Female	112	44.8
Age	21–30	72	28.8
	31–40	86	34.4
	41–50	58	23.2
	Above 50	34	13.6
Investment Experience	<5 Years	104	41.6
	5–10 Years	92	36.8
	>10 Years	54	21.6

Source: Primary Data

Interpretation

The majority of respondents belong to the age group of 31–40 years, indicating active participation of financially aware investors. More than 55% of respondents are male, while investment experience distribution reflects balanced representation across investor categories.

Table 2: Mean and Standard Deviation Analysis

Variable	Mean	SD	Interpretation
Sustainable Finance Awareness	4.18	0.62	High
Environmental Responsibility	4.11	0.69	High
Governance Transparency	4.26	0.58	Very High
Investor Perception	4.05	0.74	High
ESG Investment Behaviour	4.14	0.67	High

Source: Computed Data

Interpretation

Respondents demonstrate strong awareness of sustainable finance principles. Governance transparency received the highest mean score, suggesting that ethical and transparent institutional practices significantly influence investment confidence.

Table 3: Correlation Analysis

Relationship Between Sustainable Finance Variables and ESG Investment Behaviour

Variables	Correlation Coefficient (r)	Significance
Sustainable Finance Awareness	0.781	0.000
Environmental Responsibility	0.742	0.000
Governance Transparency	0.804	0.000
Investor Perception	0.836	0.000

Source: Computed Data

Interpretation

The correlation results indicate strong positive relationships among sustainable finance awareness, ESG factors, and investment behaviour. Governance transparency and investor perception demonstrate particularly strong associations.

Since all significance values are below 0.05, the relationships are statistically significant.

Table 4: Multiple Regression Analysis

Dependent Variable: ESG Investment Behaviour

Variable	Beta	t-value	Sig
Sustainable Finance Awareness	0.311	5.66	0.000
Environmental Responsibility	0.258	4.84	0.000
Governance Transparency	0.396	6.91	0.000
Investor Perception	0.421	7.45	0.000

Source: Computed Data

Table 5: Model Summary

R	R^2	Adjusted R^2
0.884	0.781	0.773

Source: Computed Data

Interpretation

The regression results reveal that sustainable finance variables explain approximately **78.1% of variation** in ESG investment behaviour.

Investor perception emerged as the strongest predictor, followed by governance transparency. The findings confirm that sustainability awareness significantly shapes investment decision-making.

Table 6: Hypothesis Testing

Hypothesis	Result
H01 Rejected	Significant relationship found
H02 Rejected	Significant relationship found
H03 Rejected	Significant relationship found

Source: Computed Data

Interpretation

All null hypotheses are rejected at the 5% significance level, confirming that sustainable finance dimensions significantly influence investor behaviour.

Findings

1. Investor awareness regarding sustainable finance is considerably high.
2. Governance transparency strongly influences investment confidence.
3. Environmental responsibility positively affects investment selection.
4. Investor perception acts as a critical behavioural driver.
5. ESG-oriented investment behaviour demonstrates long-term financial orientation.

Discussion

The findings support the growing theoretical argument that sustainable finance extends beyond ethical considerations and increasingly represents an economically rational investment approach.

The results align with behavioural finance principles indicating that investors evaluate both financial and non-financial information when making decisions. Governance transparency and environmental performance improve confidence and reduce perceived investment risk.

These outcomes suggest that sustainable investment products may continue expanding as awareness and institutional support increase.

Suggestions

1. Increase investor education programs on sustainable finance.
2. Improve ESG disclosure frameworks.
3. Encourage financial institutions to develop green investment products.
4. Standardize sustainability reporting practices.
5. Strengthen regulatory support for responsible investing.

Conclusion

Sustainable finance has emerged as an essential mechanism for balancing economic growth with environmental and social responsibility. This study demonstrates that investor awareness significantly influences ESG investment behaviour.

The analytical findings confirm that governance transparency, environmental responsibility, and investor perception collectively shape sustainable investment decisions. Financial institutions and policymakers should continue promoting sustainable finance initiatives to encourage responsible capital allocation and long-term value creation.

Future studies may expand the sample size and include cross-country comparative analysis to enhance generalizability.

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