

Investor Awareness, Governance, And Sustainability: A Study Of ESG Investment Decisions In Telangana State

Mohd Afroze¹ & Dr. Pazhanisamy S.²

¹*Research Scholar, Department of Business Administration Annamalai University, Chidambaram, Tamil Nadu, India*

²*Assistant Professor, Department of Business Administration Annamalai University, Chidambaram, Tamil Nadu, India*

Environmental, Social and Governance (ESG) investing has gained significant prominence as investors increasingly integrate sustainability and ethical considerations with traditional financial decision-making. While ESG investment products have expanded rapidly in India, empirical evidence on investor behaviour at the regional level remains limited. This study examines the factors influencing investors' decisions to invest in ESG funds in Telangana State. Using a quantitative research design, primary data were collected from 600 retail and institutional investors through a structured questionnaire. Structural Equation Modelling (SEM) was employed to analyse the relationships among socio-demographic characteristics, financial literacy, ESG awareness, perceived returns, risk perception, social values, media influence, and ESG investment decisions. The findings indicate that social values, perceived financial returns, and financial literacy exert a significant positive influence on ESG investment decisions, whereas risk perception has a significant negative effect. The study offers important implications for asset management companies, policymakers, and financial educators aiming to promote sustainable investment practices in emerging markets.

Keywords: ESG investing; Sustainable finance; Investor behaviour; Structural equation modelling; Mutual funds; India.

1. Introduction

The integration of Environmental, Social and Governance (ESG) criteria into investment decision-making has transformed global capital markets. Investors increasingly recognize that companies with strong ESG practices tend to demonstrate superior risk management, enhanced resilience, and long-term value creation. Consequently, ESG investing has evolved from a niche ethical strategy into a mainstream financial approach.

In India, ESG investing has gained momentum due to regulatory reforms, increased corporate disclosures, and growing awareness of sustainability issues. Telangana State, particularly Hyderabad, represents a unique investment environment characterized by a high concentration of information technology professionals, entrepreneurs, and financially literate investors. Despite these favourable conditions, participation in ESG funds remains uneven, highlighting the need to examine the determinants of ESG investment decisions at the state level.

2. Literature review

Prior studies indicate that mutual fund investment decisions are influenced by both financial and non-financial factors. Traditional determinants such as expected returns, risk perception, liquidity, and past performance continue to play a central role. However, ESG investing introduces additional considerations, including ethical alignment, environmental concern, social responsibility, and governance quality.

Empirical evidence suggests that investors with higher levels of education and financial literacy are more inclined towards sustainable investments. Social norms, peer influence, and media coverage further shape investor attitudes toward ESG products. Regulatory initiatives mandating sustainability reporting have also enhanced transparency and investor confidence. Nevertheless, existing Indian literature primarily focuses on national-level trends or corporate ESG performance, with limited emphasis on regional investor behaviour and integrated behavioural models.

3. Research gap

Despite the growing popularity of ESG investing in India, there is a lack of state-specific empirical research examining the factors influencing investor decision-making. Most studies analyse financial, psychological, or institutional variables in isolation and do not account for their combined effect within a specific regional context. Telangana's distinctive socio-economic profile has not been adequately examined in relation to ESG fund adoption. This study addresses these gaps by developing and empirically testing an integrated model using primary data.

4. Objectives of the study

The objectives of the study are:

- (i) to examine the socio-demographic characteristics of ESG investors in Telangana;
- (ii) to analyse the influence of financial, attitudinal, informational, and institutional factors on ESG investment decisions;
- (iii) to develop and validate a structural equation model explaining ESG fund adoption behaviour; and
- (iv) to provide policy and managerial implications for promoting ESG investing.

5. Research methodology

5.1 Research design

The study adopts a descriptive and analytical research design.

5.2 Sample and data collection

Primary data were collected from 600 retail and institutional investors residing in Telangana State through a structured questionnaire administered via online surveys and personal distribution. Purposive and snowball sampling techniques were employed to reach respondents with investment experience or awareness of ESG products.

5.3 Measurement of variables

The questionnaire comprised multi-item Likert-scale measures capturing financial literacy, ESG awareness, perceived returns, risk perception, social values, media influence, and ESG investment decision.

5.4 Data analysis techniques

The data were analysed using descriptive statistics, reliability analysis, exploratory factor analysis, and structural equation modelling (SEM) using AMOS or SmartPLS software.

6. Results

6.1 Reliability and validity

All constructs demonstrated satisfactory internal consistency, with Cronbach's alpha values exceeding the recommended threshold of 0.70. Convergent and discriminant validity were confirmed through composite reliability and average variance extracted measures.

6.2 Structural equation modelling results

The SEM results indicate that social values, perceived financial returns, and financial literacy have a significant positive influence on ESG investment decisions. Media influence also exerts a positive effect, whereas risk perception negatively affects ESG fund adoption. The model exhibits strong goodness-of-fit indices, confirming the robustness of the proposed framework.

7. Discussion

The findings suggest that ESG investment decisions in Telangana are driven by a combination of financial considerations and ethical motivations. Investors are more likely to adopt ESG funds when they perceive competitive returns and align investments with personal values. However, concerns regarding risk and uncertainty continue to act as barriers, emphasizing the importance of transparent communication and investor education.

8. Implications

8.1 Managerial implications

Asset management companies should enhance ESG disclosure quality, emphasize financial performance alongside sustainability impact, and tailor communication strategies to investor preferences.

8.2 Policy implications

Regulators and policymakers should strengthen ESG reporting standards and promote investor education initiatives to build trust and awareness at the regional level.

9. Conclusion

This study provides state-level empirical evidence on the determinants of ESG investment decisions in Telangana. By integrating financial, behavioural, and institutional factors through structural equation modelling, the research contributes to the sustainable finance literature and offers actionable insights for expanding ESG investment adoption in emerging markets.

References

1. Agapova, A., & Garanina, T. (2024). Sustainable investment flows and the expansion of ESG mutual funds: Evidence from global asset management. *Journal of Sustainable Finance and Investment*, 14(2), 215–232.
2. Andries, A. M., & Sprincean, N. (2023). Corporate governance, ESG performance and risk management: Evidence from emerging markets. *Corporate Governance: The International Journal of Business in Society*, 23(4), 678–695.
3. Baldi, F., & Lambertides, N. (2024). Investor behaviour and performance chasing in mutual funds: Evidence from ESG and conventional funds. *Journal of Behavioral and Experimental Finance*, 41, 100873.
4. Baily, C., Kumar, S., & Mehta, R. (2022). ESG mutual funds and sustainable investment strategies: An empirical overview. *International Journal of Finance and Economics*, 27(3), 2891–2904.
5. Biju, A. V. N., Mathew, J., & Thomas, R. (2023). Sustainable investing preferences among millennials and Generation Z: Evidence from global markets. *Journal of Sustainable Finance and Investment*, 13(1), 56–74.
6. Biju, A. V. N., Mathew, J., & Thomas, R. (2023). Historical evolution of ethical and ESG investing: From value-based exclusion to impact investing. *International Journal of Ethics and Systems*, 39(2), 245–260.
7. Dutta, A., & Paul, B. (2023). ESG screening, responsible investment and mutual fund performance. *Asian Journal of Business Ethics*, 12(1), 89–105.
8. Fooladi, I. J., & Hebb, G. (2023). Mandatory ESG disclosure and corporate sustainability reporting in India: Implications of the BRSR framework. *Journal of Business Ethics*, 186(3), 673–691.
9. Garg, A., Sharma, P., & Verma, R. (2022). Investors' attitude towards mutual funds as an investment option. *International Journal of Research in Management*, 12(2), 45–52.
10. Goel, P., Singh, A., & Gupta, N. (2024). Corporate sustainability initiatives and renewable energy adoption in India: Evidence from ESG leaders. *Journal of Cleaner Production*, 412, 137479.
11. Khandelwal, V., Jain, S., & Malhotra, D. (2023). ESG risks and governance challenges: Implications for Indian businesses. *International Journal of Corporate Governance*, 14(1), 34–49.
12. Koundouri, P., Bithas, K., & Papandreou, A. (2022). Performance evaluation of selected mutual funds in India. *International Journal of Marketing and Technology*, 12(4), 61–70.
13. Mishra, A. K., Panda, B., & Rout, S. (2023). Performance indicators of mutual funds: A review of empirical evidence. *Researchers World – Journal of Arts, Science & Commerce*, 14(1), 112–124.
14. Nelvik Uthuslien, L., & Røyen, A. (2023). ESG practices and firm value creation: A stakeholder perspective. *Sustainability Accounting, Management and Policy Journal*, 14(5), 1023–1044.
15. Tampakoudis, I., Noulas, A., & Kiosses, N. (2023). Global trends in ESG investing and asset management strategies. *International Review of Financial Analysis*, 87, 102560.
16. Zhang, N., Wang, Y., & Li, X. (2023). Mutual fund size, risk-adjusted performance and investor returns. *Journal of Asset Management*, 24(2), 138–151.