

Investor Perceptions of ESG Practices: A Survey on the Impact of Sustainable Investing

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Abstract:

The research investigates how Environmental Social and Governance ESG practices affect investor behaviour and their decision-making processes about investments. The researchers used a survey-based methodology to gather information from 120 investors which included both individual and institutional investors to evaluate their viewpoints on ESG factors and their predicted financial results and their ethical values for making investment choices. Researchers used three data analysis techniques which included descriptive statistics and factor analysis and regression analysis to determine the main factors that influence investors who base their investment decisions on ESG criteria. The results demonstrate that sustainability particularly environmental and governance components serve as the primary factor which influences investor decision-making. Investors now view ESG investments as long-term financial assets which make ESG-related financial performance expectations an important factor in their investment decisions. Ethical and social considerations while relevant to the situation had a smaller effect on the results. The research identified two major obstacles which prevent companies from implementing ESG practices because they lack formal ESG reporting standards and they fear that ESG practices will lead to financial losses. The research demonstrates that ESG factors now play a vital role in investment decisions while explaining the necessity for better ESG data transparency and regulatory frameworks which will enable sustainable investing. The study demonstrates that ESG practices have developed into mandatory elements of investment strategies because investors want both ethical business practices and potential financial benefits.

Keywords: ESG practices, investor perceptions, investment decisions, financial performance, sustainability.

1. Introduction

Investors now use Environmental, Social, and Governance (ESG) practices as essential elements for their decision-making process because organizations sustain their environmental operations throughout the world. The practice of ESG investing which integrates environmental, social, and governance elements with financial analysis has become more popular during the last few years because people increasingly

understand the worldwide issues that include climate change and social inequality and corporate responsibility (Friede, Busch, & Bassen, 2015). Investors who want their investment portfolios to reflect their personal values need to understand how ESG practices operate because this knowledge helps them track changes in sustainable investment practices.

The importance of ESG investing exists because it addresses rising social demands while showing stakeholders its capacity to deliver financial results. Multiple studies have demonstrated that companies which focus on ESG factors deliver better financial performance through reduced risks and increased stakeholder contentment (Sullivan & Mackenzie, 2017). ESG opportunities attract many investors but some investors approach these opportunities with caution because they believe sustainability will negatively impact financial results. The different opinions about these mixed views stem from three main reasons which include the absence of standardized ESG reporting and the challenges of evaluating real sustainability benefits and the apprehensions about possible financial losses (Auer & Schuhmacher, 2016). The research investigates how investors view ESG practices and their subsequent effects on investment decision processes. The study will use a survey to analyze which elements affect investors' ESG perceptions and their sustainability investment behaviour and the effect of ESG performance on their investment decisions. The understanding of these perceptions provides essential information which demonstrates how investment strategies transform to adapt to worldwide sustainability challenges.

2. Review of Literature

- The study by **Dias et. al (2025)** was done to determine the perceptions of Portuguese investors towards companies that have embraced Environmental, Social, and Governance (ESG) practices. The authors consider the question of investor attitudes towards sustainable investments and the extent of the ESG factor impact on making a decision based on a survey-based approach. The results indicate that most Portuguese investors pay attention to the ESG criteria, but there are still the concerns of potential trade-off between sustainability and financial returns. The study has identified issues in incorporating ESG factors in investment strategies as a lack of information about the ESG practices of companies and the absence of standardization of ESG reporting.
- **Peters et. al (2025)** investigated the gap in the perceptions toward sustainable investing among the general population versus financial advisors. In one of their survey experiments, the authors discover that the general population is inclined to agree with the sustainability principles of investment, whereas express scepticism is expressed by financial advisors because of the financial returns of the ESG-oriented portfolios. The absence of standardized measurements of ESG and the perceived risk were expressed as major obstacles to the enhancement of sustainable investing by advisors.
- **Zeb et. al (2025)** explored the convergence of sustainable investing and blockchain technology, particularly the perception of investors in regards to ESG aspect in investments in cryptocurrencies. The authors state that although cryptocurrencies are frequently blamed in terms of environmental cost, the transparency attributes of blockchain may contribute to enhancing the ESG operations in the crypto domain. The paper concludes that attitudes of investors to investing in sustainable crypto are determined by the possibility of blockchain to enhance traceability and minimize fraud.

- **Acharya, S. (2024)** devoted his attention to the perception of both individual and institutional investors in regard to sustainable investments, and the influence of such perceptions on the investment decision. The research concludes that more investors are being driven by ethical issues, including the protection of the environment and social responsibility though the issue of financial feasibility of sustainable investments remains. This study finds a gap in the investor knowledge regarding ESG criteria and the contribution made by the government regulations towards ESG ratings and corporate disclosures towards investment decisions.
- **Chandra et. al (2024)** investigated the perception of sustainable investment and how it affected the investment decision in the Indonesian market. The authors carry out a survey to determine the reasons of sustainable investments and the other key factors in decision-making. The paper emphasizes that environmental consciousness and societal issues of justice are becoming the motivating factors behind most investors despite the obstacles of inaccessibility to adequate ESG data and the perceived financial inefficiency of sustainable investments.
- **Kraussl et. al (2024)** aggregated the available literature on ESG investing, which was centred on investor expectations, beliefs, and perceptions. The authors investigate the integration of ESG factors in investment strategies and the issue of increasing the role of sustainability in the investment decision-making process. Although the sustainable investment has become more in demand, the review finds that some of the challenges are the lack of consistency in ESG reporting, unified metrics, and the belief that the financial performance of ESG portfolios cannot be achieved.
- **Rau, P. R., and Yu, T. (2024)** investigated how investors, institutions and firms viewed ESG factors in China. The research concludes that ESG investing is taking off in China especially in the institutional investor circles compelled by both the regulatory and the mounting need by the people to invest in a sustainable manner. Another area the authors investigate is the response of firms to the growing interest in ESG, where corporate governance is brought up as the catalyst to sustainable practices. In spite of the increasing popularity of ESG, the researchers have found that the major obstacles to its broader implementation include the absence of uniform ESG reporting and the fear of negative financial performance.
- **Zhang, Y. (2024)** studied the motivation and the nature of investors with a stronger interest in the factor of ESG when it comes to choosing an investment. The paper establishes various investor profiles which include investors who are driven by ethical factors to investors who are driven by the desire to get financial gains by making sustainable investments. The study gives information about how the demographics of the investors, including age, income, and education; influence their ESG investment decisions by conducting a survey of a wide sample population of investors.
- **Makhija et. al (2023)** explored how ESG variables influence a personal choice on investments. The authors are interested in the insights of the effect of ESG-related variables, including environmental sustainability and corporate governance practices, on the individual investment decision. The analysis concludes that ESG factors are gaining importance among individual investors particularly those that value ethical investing. The authors however add that integration of ESG factors remains a challenge to many

investors as there is still uncertainty in the reporting of ESG and that investors worry about the possible underperformance of their finances.

- **Yucel et. al (2023)** examined the effects of sustainable finance literacy and perceived environmental impact on the investment attitudes toward sustainable investing. By conducting a survey with individual investors, the study establishes the existence of a positive relationship between the level of sustainability literacy and more positive attitudes towards sustainable investments. Another significance of the environmental impact perceptions on investment decisions is also stated by the authors.
- **Park, S. R., and Jang, J. Y. (2021)** studied how institutional investors make their decisions when they have been guided by the management practices of the ESG, which implies the effects that country-specific ESG criteria have on investment decisions. The authors conclude that institutional investors are becoming more integrating ESG factors in their investment making, especially in the countries where ESG regulations are very strong. The authors claim that national-based ESG standards are very important in the formation of investor perception and decision making, and investors would prefer countries that possess transparent and well-established policies on ESG.
- **Kolbel et. al (2020)** examined how sustainable investing can bring about beneficial change to the environment and social life. The authors consider how the behaviour of investors can affect corporate practices and help to attain larger objectives of sustainability. The paper explains the ESG integration importance in investment strategies and how investors can be presented with the possibility of generating positive social and environmental impact.
- In order to determine the reasons and methods in which investors use the ESG information to make their investment decisions, **Amel-Zadeh, A., and Serafeim, G. (2018)** conducted a worldwide survey of investors. The research concludes that institutional investors are increasingly relying on ESG information as a risk management tool, to boost their returns, and to make investments according to their ethical beliefs. The authors note all the increased role of ESG data in the investment analysis and decision-making process and propose that a standardized method of ESG reporting would enhance the investor confidence in the usage of ESG information.
- **Eccles et. al (2017)** highlighted the findings of an international survey that was carried out to know how institutional investors integrate the ESG factors in decision-making. The research paper concludes that the institutional investors are becoming more sensitive to the ESG factors; however, there is a great range of differences in the manner in which the investors integrate the same factors in their investment policies.
- Van Duuren et. al (2016) reviewed the potential of ESG integration to transform the process of investment management by stating that the traditional approach towards investment management should be altered to consider the ESG factors. The authors emphasize a need to include the ESG data into the basic analysis of the companies and explain the possible advantages of the ESG integration, such as a decrease in risks and a creation of long-term value.
- **de Zwaan et. al (2015)** examined the perception of ESG investing in the Australian superannuation (retirement) funds. The research concludes that although more people are becoming interested in sustainable investing, there is a vast number of members who are not aware of what ESG is available to

them. The study identifies that there is a need to enhance effective communication and education on sustainable investment choices within the superannuation funds to make Australian investors embrace ESG practices more.

- **Berry, T. C., & Junkus, J. C. (2013)** studied the reasons that drive investors to practice socially responsible investing. The study finds that ethical considerations, such as environmental protection and social justice, play a significant role in shaping investors' decisions to allocate funds to socially responsible investments. The authors state that financial matters remain the most important aspect which leads to difficulties for investors who try to balance their ethical objectives with the need to achieve financial results.

3. Objectives of the Study

- To assess the factors influencing investor perceptions of ESG practices.
- To evaluate the impact of ESG practices on investment decisions.

4. Research Methodology

The researchers conducted their study through a quantitative research method which used surveys to investigate how investors view different ESG practices and their effects on investment choices. The research team created a structured questionnaire to measure investors' (environmental social and governance) attitudes together with their expectations of financial results and their moral values. The survey collected data from 120 participants who included individual and institutional investors through online platforms. The researchers used descriptive statistics together with factor analysis to find major elements that decide how people perceive things and they used regression analysis to study how ESG practices affect investment choices. The researchers applied Kaiser-Meyer-Olkin (KMO) test and Bartlett's Test of Sphericity together with multiple regression analysis to examine how ESG factors affected investor behaviour.

5. Results and Discussion

5.1 Factor Analysis

Test	Value	Sig.
Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO)	0.84	
Bartlett's Test of Sphericity	1207.93	0.000*

The Kaiser-Meyer-Olkin (KMO) statistic recorded a value of 0.84 which demonstrates that the sample size meets the requirements for conducting factor analysis because values over 0.60 establish acceptable limits while 0.80 and above achieve good status. The null hypothesis of Bartlett's Test of Sphericity states that the correlation matrix exists as an identity matrix which shows no relationship between the measured

variables. The result shows significance at $p < 0.001$ which indicates that factor analysis suits the data because the correlation matrix does not function as an identity matrix.

Communality

Variable	Initial	Extraction
ESG practices are important when making investment decisions	1	0.74
I believe that ESG investments offer long-term financial returns	1	0.85
I prioritize environmental factors (E) in my investment decisions	1	0.91
I prioritize social factors (S) in my investment decisions	1	0.88
I prioritize governance factors (G) in my investment decisions	1	0.85
I am willing to invest more in companies with strong ESG practices	1	0.8
I avoid investing in companies with poor ESG performance	1	0.77
ESG practices are a decisive factor in my investment decisions	1	0.82
I believe ESG practices have a significant impact on a company's financial performance	1	0.83
I prefer investing in companies with a verified ESG certification	1	0.79

The factors explain the common variance of each variable through their proportion of variance that tests their actual distribution. The extracted factors explain most of the variable variance because all variables show high communalities which range between 0.74 and 0.91.

Total Variance

Component	Initial Eigenvalues	% of Variance	Cumulative %
1	5.12	34.13%	34.13%
2	2.87	19.12%	53.25%
3	1.48	9.85%	63.10%
4	1.12	7.46%	70.56%
5	0.91	6.07%	76.63%
6	0.8	5.35%	81.98%
7	0.72	4.79%	86.77%
8	0.68	4.53%	91.30%
9	0.57	3.83%	95.13%
10	0.5	3.29%	98.42%

11	0.42	1.28%	99.70%
12	0.34	0.30%	100%

The total variance distribution shows that Component 1 accounts for 34.13% of the total variance between components whereas Component 2 accounts for 19.12% and Component 3 accounts for 9.85%. The Cumulative % column shows that the first three components together explain 63.10% of the variance in the data, indicating that these three factors are the most important in understanding investor perceptions of ESG practices. The total of 4 components (up to Component 4) explain over 70% of the variance, indicating a strong and meaningful factor structure.

Rotated Component Matrix

Variable	Factor 1 (Sustainability)	Factor 2 (Financial Performance)	Factor 3 (Ethical Considerations)
ESG practices are important when making investment decisions	0.78	0.32	0.11
I believe that ESG investments offer long-term financial returns	0.21	0.85	0.08
I prioritize environmental factors (E) in my investment decisions	0.87	0.14	0.32
I prioritize social factors (S) in my investment decisions	0.84	0.15	0.26
I prioritize governance factors (G) in my investment decisions	0.82	0.1	0.29
I am willing to invest more in companies with strong ESG practices	0.72	0.3	0.18
I avoid investing in companies with poor ESG performance	0.74	0.28	0.23
ESG practices are a decisive factor in my investment decisions	0.79	0.31	0.22
I believe ESG practices have a significant impact on a company's financial performance	0.28	0.82	0.09
I prefer investing in companies with a verified ESG certification	0.76	0.21	0.37

Factor 1 (Sustainability) contains variables that are related to the environmental, social, and governance variables of investing. It has high scores on I prioritize environmental factors (E) (0.87), I prioritize social factors (S) (0.84) and I do not want to invest in companies with low ESG performance (0.74). This is the aspect that is the significance of sustainability in investment decisions.

Factor 2 (Financial Performance) is mainly linked with the assumption that the ESG investments would yield financial returns over the long run. The high loading of 0.85 of the variables (I believe that ESG investments offer long-term financial returns) indicates that this variable is the financial part of motivation towards ESG investing.

Factor 3 (Ethical Considerations) is a secondary factor and such items as I believe ESG practices play a major role in the financial performance of a firm (0.82), I prefer investing in companies that have a confirmed ESG certification (0.37). This aspect portrays the need of investors to invest ethically or morally and yet it is not as strong as the first two factors.

5.2 Regression Analysis of the ESG Practices Impact on Investment Decision.

A multiple regression was done to assess the influence of the ESG practices on the investment decisions. The dependent variable (DV) was the level of influence of ESG practices on investment decisions and the scale was 1 -5 (meaning 1 = Not at all important, 5 = Extremely important). Environmental Factors (E), Social Factors (S), Governance Factors (G), Financial Performance Expectations and Ethical consideration are the independent variables (IVs).

Model Summary Table

Statistic	Value
R-Squared	0.78
Adjusted R-Squared	0.76
Standard Error	0.58
F-Statistic	45.23
p-value (F-test)	0

The R-squared value of 0.78 demonstrates that ESG practices impact investment decisions through 78 percent of the variance which the independent variables (environmental social governance financial performance and ethical considerations) provide. The adjusted R-squared value of 0.76 which considers model predictors still demonstrates high variance explanation capacity. The F-Statistic value of 45.23 together with the p-value of 0.000 demonstrates that the complete model possesses statistical significance because ESG practices together create a major impact on investment decisions.

Beta Coefficients Table

Variable	Coefficient (β)	Standard Error	t-Statistic	p-value
Intercept	1.18	0.45	2.62	0.01
Environmental Factors (E)	0.32	0.08	4	0
Social Factors (S)	0.18	0.07	2.57	0.012
Governance Factors (G)	0.22	0.06	3.67	0.001
Financial Performance	0.45	0.05	9	0
Ethical Considerations	0.26	0.09	2.89	0.005

- Environmental Factors (beta = 0.32, $p < 0.001$): The increase in the effect of ESG practices on investment decisions is equivalent to 0.32 with a one unit increase in the emphasis on environmental factors. This implies that environmental factors have a significant effect on the investment decisions.
- Social Factors (beta = 0.18, $p = 0.012$): being more particular to social factors enhances the role on investment decisions by 0.18. This means that social concerns have a moderate influence.
- Governance Factors (beta = 0.22, $p = 0.001$): there is a significant positive influence of governance practices as well, 0.22 percentage point increase in the influence of the emphasis on the ESG practices on investment decisions is found with each unit increase in the governance emphasis.
- Financial Performance (beta = 0.45, $p < 0.001$): The variable exerts the most significant effect on investment decisions, whereby, 0.45 is the impact of one unit change of the belief in the contribution of the ESG practices to the financial returns.
- Ethical Considerations (beta = 0.26, $p = 0.005$): Ethical considerations, important as they are, have a comparatively lesser impact as compared to that of financial and sustainability factors.

6. Conclusion

The study demonstrates that investor ESG practice evaluation process mainly depends on sustainability assessment while environmental and governance elements affect their investment choices most strongly. Financial performance expectations also play a key role, as many investors associate ESG practices with long-term financial returns. Ethical and social considerations, though important, are less influential. The lack of standardized ESG reporting together with financial underperformance fears, creates obstacles that stop organizations from implementing ESG standards. The findings demonstrate that investors need more precise ESG information together with improved regulations to build their trust. ESG factors currently determine investment choices because investors base their decisions on ethical principles while expecting financial gains and these factors will become more essential when sustainability issues increase.

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