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EMERGING PARADIGMS IN SOCIALLY RESPONSIBLE INVESTMENT: AN EMPIRICAL STUDY WITH FOCUS ON ESG INVESTING

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ABSTRACT
ESG investing has become a prominent consideration for retail investors in recent years, reflecting a shift towards socially responsible investment practices. Environmental, Social, and Governance investing, is an investment approach that considers a company's performance in these three key areas alongside traditional financial metrics. In ESG investing, investors evaluate a company's commitment to environmental sustainability, social responsibility, and good governance practices. ESG investing aims to promote long-term sustainability and ethical practices within companies while seeking to generate positive social and environmental impacts alongside financial returns. This paper seeks to understand how retail investors awareness regarding ESG investing impacts their attitudes towards ESG investing. The study collected data through a self- structured questionnaire from 110 retail (existing and potential) investors in Lucknow, India. Cronbach's Alpha was used to evaluate the questionnaire's reliability, and to test the hypothesis, the study used linear regression analysis. The findings indicated that higher awareness level among retail investors positively impacts their attitudes (with a condition if the returns are not compromised) towards ESG investing, highlighting the crucial role of investor awareness in making sustainable investment decisions. Further, the study's implications suggest that enhancing awareness among retail investors regarding ESG investing can foster a more positive attitudes towards sustainable investments.

KEYWORDS: *Environmental, Social, And Governance Investing, ESG Investing, Awareness, Attitudes, Retail Investors*

INTRODUCTION
Environmental, Social, and Governance investing emerged from a broader concept of sustainable finance, is a strategy that considers a company's environmental impact, social responsibility, and corporate governance procedures alongside traditional financial metrics while choosing which investments are worthwhile. In environmental, social, and governance investing, non-financial criteria are considered along with expected financial returns **(Winegarden, 2019)**. ESG investing can be described as a blend of financial and sustainability systems aimed at improving profitability **(Aich et al, 2021)**. ESG investing has experienced a surge in popularity due to a growing trend among investors to integrate their values with their investment portfolios.

The increasing concern for sustainability among investors is driven by three key factors: the financial relevance of sustainable practices, the alignment of investment strategies with non-financial objectives, and shifting investor preferences towards responsible assets. Investors increasingly recognize companies that exhibit strong ESG performance often yield superior risk-adjusted returns, prompting even those focused solely on financial gains to consider sustainability. Additionally, institutional investors are prioritizing the long-term welfare of their beneficiaries, reflecting a commitment to societal impact. Finally, younger investors are favoring "green" investments, resulting in a surge in demand for sustainable options. This convergence of financial, ethical, and social considerations emphasizes how crucial it is to incorporate ESG factors into investment strategies (**Edmans & Kacperczyk, 2022**).

Increasingly, Investors are focusing a company's ESG performance to guide their decisions. ESG information disclosure is the process where a company provides detailed environmental, social, governance, and financial management information in a comprehensive, timely, and accurate manner. This practice enables the market to make well-informed investment valuations, thereby protecting the legitimate rights and interests of shareholders and creditors (**Zhao et al., 2018**). Transparent ESG information enables investors to evaluate how effectively a company manages its environmental, social, and governance practices. ESG disclosure is gaining global prominence, and a key component in India is the Business Responsibility and Sustainability Reporting (BRSR) framework. The BRSR framework, a comprehensive reporting structure developed in India by Securities and Exchange Board of India (SEBI), is dedicated to promoting responsible business practices and sustainability initiatives. It emphasizes the integration of ESG aspects into the core operations, strategies, and decision-making processes of organizations. Despite the emphasis on ESG disclosure, some studies has highlighted no impact ESG disclosure on investment decisions. For instance, **Moss et al. (2023)** found no evidence that ESG disclosures influence retail investors' trading decisions using hourly data from Robinhood Markets.

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Specifically, ESG investing enables investors to harmonize their portfolios with sustainable practices, social responsibility, and ethical governance standards. By supporting companies committed to ESG principles, investors not only uphold their values but also reduce financial risks associated with companies lacking strong ESG performance. Moreover, through ESG investing, investors not only promote sustainable practices but also gain from improved financial performance and contribute to the broader goal of creating a more ethical and environmentally conscious investment landscape. Recent studies have shown that sustainable practices have a positive impact on corporate performance. For instance, **Clark et al. (2015)** observed companies with robust sustainability initiatives not only achieve better operational performance but also experience lower risk and improved stock price performance. **Fatemi et al. (2018)** found that ESG strengths increase firm value, while weaknesses decrease it and also noted that ESG disclosure can reduce valuation, but importantly, disclosure plays a important role in moderating the impacts of strengths and weaknesses. Transparency in disclosure can mitigate weaknesses and temper the impact of strengths on firm value. Another study conducted by **Li et al. (2018)** found that firms with better ESG disclosure tend to have higher firm value, as ESG disclosure can lead to transparency, improved stakeholder relationships, and increased firm performance, ultimately contributing to higher firm value. Another research study by **Friede et al. (2015)** highlighted that ESG has a stable positive impact on corporate financial performance (CFP) over time.

In previous studies, investors have been shown to be unwilling to compromise on financial returns in exchange for non-financial benefits. For instance, the study conducted by **Rosen et al. (1991)** concluded that socially responsible investors (SRIs) do not want to sacrifice their return on investment in exchange for social responsibility. The contrary has been found in several studies, that investors give priority to ESG considerations and are willing to accept lower returns in order to align with their ethical and social values. For instance, **Beal and Goyen, (1998)** found that investors prioritize environmental conservation over financial gains when investing in Earth Sanctuaries Limited (ESL), underscoring the importance of ethical and environmental considerations in their investment decisions. In another study, **Riedl and Smeets (2017)** found that investors are willing to sacrifice financial performance to align with their social preferences. According to **Hartzmark and Sussman (2018)**, investors value sustainability in mutual funds, resulting in net inflows for high sustainability funds and net outflows for low sustainability funds.

The purpose of this study is to explore ESG investing, focusing on the awareness and attitudes with the condition that if the financial returns are not compromised of retail (existing and potential) investors. The study seeks to investigate how retail investors' awareness of ESG investing impacts their attitudes towards ESG investment. By examining this relationship, the research intends to provide insights into the significance of ESG considerations for retail investors and how their awareness influences their attitudes in sustainable and responsible investing. Through an empirical analysis, the study aims to contribute valuable insights to the field of ESG investing.

Thus, the study has following objectives:

1. To assess the awareness level among retail investors' regarding ESG investing.
2. To investigate the relationship between retail investors' awareness of ESG investing and their attitudes towards ESG investment.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The paper by **Zhang, Ma, and Zhang (2024)** focuses on the relationship between investor perceptions of ESG performance and investment intentions in the Chinese stock market, with social self-efficacy as a moderating factor. The study used the Theory of Planned Behaviour (TPB) and Structural Equation Modeling (SEM) to analyse data from retail investors, finding a positive influence of Chinese investors' views on corporate ESG performance on their investment attitudes and intentions. The study highlights the importance of social self-efficacy in moderating the link between corporate ESG performance and investment decisions, emphasizing the significance of social factors in ESG-related investment choices.

The paper by **Montagnoli and Taylor (2024)** delves into the determinants of individual attitudes towards responsible investing, particularly focusing on ESG considerations. The study also investigates the significance of ESG considerations beyond socioeconomic characteristics, including financial literacy and risk attitudes, in understanding individuals' investment decisions and asset holdings. Using data from the UK Financial Lives Survey, the research reveals that individual characteristics play a limited role in explaining responsible investments, except for factors such as education, gender, age, and financial literacy. Furthermore, individuals interested in future responsible investments are more likely to hold shares/equity and have higher investments in financial assets compared to those less inclined towards responsible investing, indicating the importance of ESG considerations in investment behaviour.

Assaf, Monne, Harriet, & Meunier (2024) investigate the alignment of ESG scores with investors' preferences, focusing on individual retail investors in France. Through a survey, the study reveals the diverse attitudes of investors towards ESG criteria, leading to a segmentation into five distinct categories of attitudes, indicating one ESG score may not suit all investors with specific sustainability preferences. The research highlights the significant heterogeneity in how different ESG attitudes predict investors' willingness to pay for high ESG firms and their engagement with ESG investment products. The findings emphasize the importance of tailoring investment products to match investors' preferences to meet regulatory requirements and cater to the rising demand for ESG assets, ultimately optimizing investor satisfaction and diversifying investment allocation in ESG-related placements.

Lippi and Poli (2024) explore the concept of ESG investing pertaining to investor profiling, focusing on distinguishing between individuals interested in environmental (E), social (S), and governance (G) pillars. Through the analysis of 190 real-

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world retail investors, the study identifies distinct profiles - those environmentally-oriented, ESG-oriented, and others interested in varying combinations of E, S, and G pillars. The findings reveal no substantial impact of financial literacy on investor ESG attitudes.

Thanki and Dangi (2023) investigates the readiness of retail investors in emerging economies towards Socially Responsible Investment (SRI) using the Theory of Planned Behaviour. The study explores how factors like attitude, subjective norm, perceived behavioural control, and moral norms influence retail investors' investment intentions in SRI. The study utilized a quantitative research approach and collected the data through judgmental sampling. The research utilizes structural equation modeling (SEM) to develop a model that explains the influence of these factors on retail investors' investment intentions for SRI. The findings reveal that attitude, subjective norms, moral norms, and subjective financial literacy play significant roles in shaping retail investors' intentions to engage in SRI.

Nafisa, Alam, and Qian (2023) explores how retail investors when making investment decisions consider company ESG issues, with moral awareness acting as a moderator. They collected data through a survey involving 599 retail investors in Dhaka and Chattagram, Bangladesh, the study employs the PLS path modelling approach to analyse the data. Their study findings indicate that retail investors consider a company's social, environmental, and governance issues when making investment choices, highlighting the impact of moral awareness on their investment decisions.

Jonwall, Gupta, and Pahuja (2023) conducted a study focused on socially responsible investment behaviour among individual investors in India. It investigates awareness level, attitude towards environmental, social, and governance issues, willingness to make investment in SRI avenues, and obstacles faced by retail investors in making SRI decisions. The research indicates that individual investors have low-level of SRI awareness, and acknowledge the significance of ESG factors in investing and are willing to fund SRI initiatives. However, concerns such as lower returns, lack of tax benefits, information gaps, and low liquidity are noted as obstacles in SRI investment decision-making. The research emphasizes the need to enhance SRI awareness among Indian investors and suggests that issuers provide adequate information on SRI options and associated risks and returns. Furthermore, the study identifies variables such as awareness of SR/ESG indices and funds additionally willingness to make investment in SRI as significant factors influencing individual investors' SRI decisions in India.

Sood, Pathak, Jain, and Gupta (2023) investigates how individual equity investors in India prioritize environmental, social, and governance factors that influence their investment choices using the Fuzzy Analytic Hierarchy Process (Fuzzy AHP). The research collected data from 438 investors located in North India. Their findings revealed that governance criteria were the most influential in shaping investment decisions, followed by environmental factors, and social criteria, however, were shown to have the least influence.

Ahamed and Ahammed (2023) focuses on exploring investor perceptions and attitudes towards impact investing in Hyderabad, India. The research study evaluates awareness level among investors regarding impact investing and examines the factors affecting their decisions. The research collected data using a structured online questionnaire from 500 investors. The results showed that a significant proportion of respondents were aware of impact investing and believed it could yield both social and financial returns. The factors such as age, income, and values were identified to significantly influence attitudes towards impact investing, with investors considering ESG factors displaying more positive attitudes.

Khalil and Khalil (2022) delve into the influence of social and environmental sustainability awareness practices on impulse buying behaviour among Omani buyers. The research, based on 441 valid responses from Omani buyers, utilizes Confirmatory Factor Analysis (CFA) and Structural Equation Modeling (SEM) techniques to analyse the collected data. The findings indicate that social and environmental sustainability awareness positively correlates with green trust, strengthening impulse buying tendencies. Moreover, environmental sustainability awareness is linked to green altruism, further enhancing impulsive purchases. The study reveals gender moderation effects, showing a more noteworthy relationship between environmental sustainability awareness and green altruism in males compared to females.

The study by **Thanki, Shah, Rathod, Oza, & Burduhos-Nergis (2022)** investigates individual investors' intentions towards Socially Responsible Investments (SRI), emphasizing on the condition that returns should not be compromised. They examined how various factors like collectivism, environmental concerns, financial performance, and SRI awareness impact investors' likelihood to engage in SRI. Additionally, the research investigates how attitude, subjective norms, and perceived behavioural control influence investors' intentions concerning SRI. The research collected data using a structured questionnaire and employing structural equation modeling techniques, the study finds that factors such as collectivism, environmental concerns, financial performance, and SRI awareness have positive effects on attitudes towards SRI, ultimately shaping investors' interests with regard to SRI. Furthermore, the study highlights the significant impacts of subjective norms and perceived behavioural control on individual investors' intentions with regard to SRI investments.

Tamara and Budiman (2022) focuses on exploring investors' awareness of their investment decisions on the new ESG Leader's index in the Indonesian stock exchange. The study used a combination of a survey with 103 respondents and semi-structured interviews from industry players to analyse investment decisions in relation to ESG principles. The findings indicated that investment decisions were influenced by environmental and governance issues, while social issues and investment horizons had no major impact. The results highlighted the significance of ESG aspects when making financial choices, emphasizing the necessity for increased awareness to draw investors towards the ESG index.

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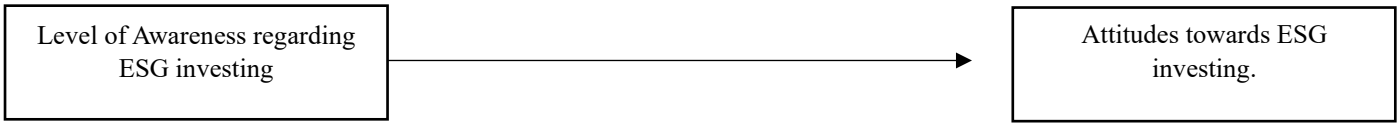
Baker, Egan, and Sarkar (2022) examine how investors value ESG objectives using a revealed preference approach. The research quantifies the value shareholders place on ESG by analysing fees paid for ESG-oriented index funds, indicating that investors have plans to pay, on average, an additional 20 basis points annually for such investments compared to non-ESG funds. The study reveals a growing value investors assign to ESG over time, highlighting an increase from 9 basis points in 2019 to potentially 28 basis points in 2022. The results suggest that investors may accept lower financial returns in exchange for the non-financial benefits of ESG activities, showing a significant implicit value placed on ESG stocks.

Garg, Goel, Sharma, and Rana (2022) explores drivers of socially responsible investment (SRI) attitudes and intentions among Indian retail investors. The research study collected data from 433 respondents, utilizes structural equation modeling to analyze how investors' values, biases, and perceived SRI performance influence their intentions towards SRI. The results showed that values, biases, performance perceptions, and social self-efficacy positively impact SRI intentions, with attitude mediating most relationships.

The research study conducted by **Sultana, Zainal, and Zulkifli (2017)** delves into the influence of ESG factors on investment decisions from the Bangladesh perspective. The study utilized the Theory of Planned Behaviour (TPB) and a positivistic paradigm to establish a research model based on individual stock market investors' feedback regarding ESG issues, drawing on dimensions from the United Nations Global Compact and Thomson Reuters Corporate Responsibility Index. The preliminary findings from Structural Equation Modeling (SEM) suggested that ESG issues significantly impact investment decisions, with governance issues exerting the most noteworthy influence, followed by social and environmental issues.

Accordingly, the review of the literature led to the hypothesis development of the research;
H1: Retail Investors level of awareness positively influences their attitudes towards ESG investing.

Figure 1. The conceptual model of the research study



Source: Authors' own representation based on research

METHODOLOGY

The study adopts quantitative research on ESG Investing, focusing on retail (existing and potential) investors' awareness and attitudes. A cross-sectional design was employed to investigate the relationship between these two variables. A convenience sampling method was utilized to gather responses from retail investors via a self-structured questionnaire. The questionnaire included five-point Likert scale items where "1= Strongly Disagree" and "5= Strongly Agree" was used to measure both awareness of ESG investing and investors' attitudes towards it. A total of 110 responses were received from retail investors in Lucknow, India. Cronbach's alpha was employed to assess the internal consistency and reliability of the Likert scale items. The linear regression analysis is conducted to investigate how awareness levels influence attitudes towards ESG investing.

RESULTS AND DISCUSSION

Descriptive Statistics

Table 1: Descriptive Analysis of Awareness

	N	Mean	Std. Deviation
1. I am familiar about the concept of ESG (Environmental, Social and Governance) investing.	110	2.79	1.300
2. I am aware about BRSR (Business Responsibility and Sustainability Reporting).	110	2.79	1.300
3. I consider the ESG score before investing in Companies.	110	2.61	.959
4. I actively seek information on how companies disclose their ESG initiatives and performance.	110	2.59	.932
5. I believe that companies which have a good ESG scores provide superior financial returns compared to companies with poor ESG scores.	110	3.45	.786
Valid N (listwise)	110		

Source: Authors' calculation using SPSS.

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The results of the analysis revealed varying awareness levels and engagement regarding ESG investing and Business Responsibility and Sustainability Reporting (BRSR) among the 110 investors surveyed. Specifically, respondents exhibited a moderate familiarity with both concepts, evidenced by a mean score of 2.79 (SD = 1.300) for awareness of ESG investing and a mean score of 2.79 (SD = 1.300) for awareness of BRSR. These findings suggest that while some individuals possess a strong understanding of ESG and BRSR principles, others remain less informed.

With regard to respondents' assessment of ESG scores prior to making investment decisions, the mean score was lower at 2.61 (SD = .959), indicating a relatively lesser inclination to prioritize these scores in their investment strategies. Additionally, the respondents' active pursuit of information concerning companies' ESG initiatives was reflected in a mean score of 2.59 (SD = .932), suggesting moderate engagement in this area but not a consistent effort across the board. Lastly, when considering the belief that companies with higher ESG scores yield superior financial returns, responses were similarly moderate, suggesting some skepticism or ambivalence regarding the direct correlation between ESG performance and financial outcomes. Together, these findings indicate a foundational awareness of ESG principles among respondents while highlighting potential gaps in the prioritization of ESG considerations when making financial choices.
Condition: If the returns are not compromised.

Table 2: Descriptive Analysis of Attitudes

	N	Mean	Std. Deviation
6. I prioritise my investment in companies based on environmental and social considerations.	110	4.05	.572
7. I will consider to invest in Companies based on ESG scores.	110	4.08	.608
8. I believe that ESG investing is critical in addressing the environmental and social issues.	110	4.25	.683
9. I am willing to adjust my investment portfolio to align with environmental and social considerations.	110	4.06	.733
10. I view ESG investing as a long-term strategy for both financial growth and risk diversification.	110	4.13	.743
Valid N (listwise)	110		

Source: Authors' calculation using SPSS.

The responses to the statements assessing respondents' attitudes toward ESG investing indicate a robust positive sentiment towards integrating environmental and social considerations into their investment strategies. With mean scores ranging from 4.05 to 4.25, the data reveal that the majority of respondents agree with the importance of prioritizing investments based on such factors. Specifically, respondents expressed a strong inclination to prioritize their investments in companies considering environmental and social factors, as evidenced by a mean score of 4.05 (SD = .572).

Moreover, the willingness to consider investing in companies based on ESG scores garnered a mean of 4.08 (SD = .608), demonstrating an acknowledgment of the relevance of these scores in investment decisions. The belief that ESG investing is necessary to solve critical environmental and social issues was strongly supported, reflected in a mean score of 4.25 (SD = .683). Respondents also indicated a readiness to adjust their investment portfolios to align with environmental and social considerations (mean = 4.06, SD = .733), suggesting a proactive attitude towards matching investment practices with personal values. Furthermore, the perspective that ESG investing serves as a long-term strategy for financial growth and risk diversification was affirmed with a mean score of 4.13 (SD = .743). Overall, these attitudes highlight a strong commitment from respondents to consider ESG factors when making investment decisions but only if the returns are not compromised.

Reliability Analysis

Mostly, Cronbach's alpha is used as a measure of internal consistency. The closer Cronbach's alpha is to 1, the higher the reliability of the internal consistency. According to **Nunnally (1978)**, coefficients are indicated as ≥ .9 - Excellent, ≥ .8 - Good, ≥ .7 - Acceptable, ≥ .6 - Questionable, ≥ .5 - Poor and .5 ≤ - Unacceptable. The calculated scales proved to be in the "Good" condition as presented in the table 3.

Table 3: Reliability Statistics- Summary of Cronbach's alpha results

	Variable	Cronbach's Alpha	No. of Items
Independent Variable	Awareness	.895	5
Dependent Variable	Attitude	.882	5
Total			10

Source: Authors' calculation using SPSS.

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Regression Analysis

Table 4: Result of the Regression Analysis of the study.

Hypothesis	Regression Weights	R	R^2	Beta	t	p value	Result
H1	AW → ATT	0.317	0.100	0.194	3.469	<.001	Supported

Note: *p< 0.05. AW- Awareness; ATT- Attitude.
Source: Authors' calculation using SPSS.

According to table 4, the result indicated a relationship which is statistically significant between retail investors' awareness of ESG investing and their attitudes towards ESG investments ($p < .001$, $t = 3.469$), with a 95% confidence level. The positive beta coefficient ($\beta = 0.194$) indicated that higher awareness levels corresponded to more positive attitudes towards ESG investing. Moreover, a moderate positive correlation ($r = 0.317$) was observed between awareness and attitude, indicating that increased awareness was linked with a favourable attitude towards ESG investments. Additionally, the R-squared value of 0.100 implied that approximately 10% of the variance in attitude towards ESG investing could be explained by variations in awareness levels. These results support the hypothesis that awareness positively influences attitudes towards ESG investing among retail investors, emphasizing the significance of investor's awareness in sustainable investment decision-making.

IMPLICATIONS OF THE STUDY

1. Implement targeted educational campaigns to increase awareness among retail investors about ESG principles, thereby fostering favourable attitudes towards sustainable and ethical investments.
2. Financial institutions should provide guidance and support to investors on how to include ESG criteria into their decision-making processes to enhance confidence in ESG principles and encourage greater adoption of responsible investment strategies.
3. Aligning regulatory frameworks with ESG standards can create a more conducive environment for ESG investments, encouraging investors to consider sustainability criteria in their decision-making processes.
4. Promoting transparent reporting of ESG performance by companies can provide investors with clear information to make informed investment choices based on sustainability metrics.
5. Encouraging ongoing engagement with investors through workshops, forums, and interactive platforms can sustain interest in ESG investing and foster a community of informed and committed responsible investors.

LIMITATIONS AND FUTURE DIRECTIONS

1. The research paper's findings are limited in generalizability due to the small sample size. To improve the study's robustness, increasing the sample size is recommended.
2. The study only examined two variables, limiting the depth of analysis. To enhance the research's scope, additional independent and dependent variables could be incorporated.
3. The research did not investigate the impact on ESG investment intention or actual behaviour of retail investors. Future research studies could focus into these areas to yield more profound insights and draw meaningful conclusions.
4. The research collected data from existing and potential retail investors. Future studies can focus on collecting data exclusively from existing retail investors to gain more focused understanding of ESG considerations.

CONCLUSION

ESG investing is becoming more recognized for its potential to combine financial returns with positive social and environmental impacts, promoting a more sustainable and ethical society. The study aimed to investigate the relationship between retail investors' level of awareness and attitude towards ESG investing. Through an empirical analysis of awareness and attitude among retail investors, the study explored how awareness influences attitudes towards sustainable and ethical investment. The findings revealed a significant and positive relationship between investors' awareness of ESG investing and their attitudes towards ESG investments. The results, with a statistically significant p-value (< .001) and a moderate positive correlation ($r = 0.317$), indicate that increased awareness levels are linked to more favourable attitudes towards ESG investing. Based on finding, enhancing retail investor awareness is essential to promote positive attitudes towards ESG principles and encourage a broader adoption of sustainable and responsible investments.

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