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The Influence of ESG (Environmental, Social, and Governance) factors on retail investment decisions in the Indian stock market

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Abstract
Increased focus on sustainability and ethical behaviors has led to increased ESG factors incorporated into investment decisions. This study looks at how ESG factors affect the choices made by retail investors in the Indian stock market. Based on an examination of secondary market data, the study examines how ESG performance affects stock selection, portfolio management, and the uptake of financial products with an ESG theme. The data suggest that knowledge of ESG amongst Indian retail investors is increasing but is constrained, especially in urban regions. ESG issues particularly impact the stock selection process because investors tend to pick companies involved in renewable energy, technology, and healthcare sectors. There is a growing inclusion of ESG-themed funds within the respective portfolios, although uptake is restricted due to access and varying levels of ESG disclosures. The study focuses on the superior performance and risk reduction capabilities of ESG investing, which provided competitive returns and reduced volatility relative to standard funds.

Keyword: Environmental, social, governance, retail investment decisions, stock market

1. Introduction

The ethical and long-term impacts of investing in a company are evaluated using the environmental, social, and governance standards, or ESG components. The Indian retail investor community is increasingly integrating ESG factors into their choices due to the increasing global attention on sustainability and ethical investment. Listed firms are encouraged to disclose ESG information by SEBI (Securities and Exchange Board of India) rules. The global financial crisis, which underscored the inevitability of the interdependence of the global economy, has brought significant changes to the corporate landscape in the last decades. The stock market is one of the key elements of the economy and acts as a vital mediator in the transfer of cash between surplus and deficit units. This culminated in the detention of firms for unethical conduct, risk supervision, accountability, and the strategic management of stakeholders. During this insurrectionary transition, stock market investors have expressed apprehension over the environmental, social, and governance (ESG) concerns of the implicated corporations. The term “environment” in the context of ESG refers to the ecological impact, pollution or carbon emission mitigation efforts, and environmental disclosures made by the organization. The social dimension focuses on workplace diversity and employee interactions, as well as health and safety. It also includes any service or charity given to the neighborhood. The governance criteria evaluate how company policies relate to issues including board diversity, CEO remuneration, shareholder rights, bribery, and corruption. Environmental parameters are Energy use, carbon emissions, waste management, and effects on biodiversity. Social parameters are Employment practices, community involvement, and human rights. Governance parameters include corporate governance policies, board diversity, and ethical leadership. In the modern era, the integration of governance, social, and environmental issues with investment has become increasingly important. Nonetheless, there is historical precedence dating back to the early 1970s, when investors avoided funding companies engaged in the tobacco sector or the apartheid regime in South Africa. In the Indian context, ESG investing remains a relatively nascent idea; nonetheless, internationally, over 3,000 ESG plans are accessible for investment (Caplan, L. J., 2013) [4]. Because these sectors are connected to environmental, social, and governance concerns, retail investors are giving priority to areas such as renewable energy, technology, and healthcare. Long-term investment decisions are influenced by the perception that companies with strong environmental, social, and governance credentials are less risky and more sustainable. Research indicates that investors who care about governance, social, and environmental concerns are more likely to back companies with open governance and moral labor standards. This study looks at how individual investors' choices in the Indian stock market are influenced by environmental, social, and governance (ESG) factors.

1.1 Research Questions

- How do corporate governance, environmental and social performance, and their effects on retail investment decisions in the Indian stock market relate to each other?
- How do different ESG concerns affect the choices made by ordinary investors in the Indian stock market?

1.2 Objectives and Hypothesis of the Study

Objectives of the Study

- The knowledge of environmental, social, and governance concepts among Indian retail investors, as well as the necessity of incorporating them into the investing process as a whole.
- Study how the performance of ESG on retail investors' stock selection and portfolio diversification is affected.
- Investigate the most recent developments in the Indian stock market concerning ESG-themed funds and the adoption of these products by retail investors.
- Give examples of tactics that enterprises, financial institutions, and governments might use to encourage Indian retail investors to make environmental, social, and governance (ESG) investments.

1.3 Hypotheses of the study

By the aforementioned aims, the researcher has formulated the following hypotheses for the study.

- **Hypothesis 1:** The degree to which Indian retail investors understand environmental, social, and governance (ESG) concepts and the need to take them into account when making investment decisions.
- **Hypothesis 2:** How environmental, social, and governance (ESG) performance affects the stock selection and portfolio diversification strategies of retail investors.
- **Hypothesis 3:** The most recent developments in the Indian stock market concerning ESG-themed funds and the adoption of the products by retail investors.

2. Review of Literature

Investors and asset managers' increasing concern and awareness about ESG investing also signify that it is gaining more traction. According to Tripathi and Bhandari, ESG stands for environmental, social, and governance variables that are used to evaluate a company's ability to operate sustainably. Workplace diversity, health, and safety concerns, labor strikes, child labor, and the impact of operations on the community and society are examples of social factors. All concerns about management and the board are included in governance, including agenda items, corruption, meeting attendance, and board diversity. Three factors—accountability, stakeholder management, and institutional theory—are used by Weber to define ESG reporting. Institutional theory serves as the foundation for ESG reporting, and businesses respond to institutional constraints regarding ESG standards. Companies that practice accountability reveal information on ESG issues because they are answerable to their stakeholders. The third principle of stakeholder management, according to Weber, clarifies the relationship between returns, financial performance, and ESG reporting; stakeholders find this to be significant. For businesses and investors to succeed in the market and be sustainable, long-term thinking is essential. But companies also need to understand what other stakeholders want (Atan *et al*. 2016) [1].

2.1 Conceptual Understanding of ESG Factors

Friede, Busch, and Bassen (2015) [6] performed an extensive meta-analysis of more than 2,000 research, demonstrating a positive correlation between financial results and ESG performance. This laid the foundation for ESG as a significant investing criterion worldwide.

Eccles, Ioannou, and Serafeim (2014) [5] highlighted that firms with strong ESG processes generally achieve superior long-term performance, rendering them appealing to sustainability-focused investors. Riedl and Smeets investigated retail investor behavior and determined that ESG-conscious investors are driven by both financial and non-financial objectives, including the alignment of investments with personal values. Bollen (2007) [3] emphasized that individual investors are prepared to forgo short-term financial gains to participate in socially responsible funds, signifying a change in investment goals.

2.2 ESG in the Indian Context

Sehgal, V. *et al*., examined the implementation of ESG principles in India and determined that legislative forces and global trends are enhancing awareness. Nonetheless, obstacles such as erratic reporting and restricted market penetration persist. Sharma *et al*., observed that younger investors in India are more inclined to consider ESG aspects than older generations, influenced by heightened knowledge and accessibility to digital financial platforms.

Roopa, N., & Bindu, C. H. have presented the idea of SEBI (2021) that required top-listed companies to report environmental, social, and governance data by bringing in the Business Responsibility and Sustainability Report (BRSR). This has resulted in greater transparency, and retail investors can now access more information, making them more informed decision-makers. KPMG India (2020) reports that environmental, social, and governance (ESG) reporting is growing in popularity among Indian firms, even though the level of depth and quality of disclosures vary greatly. The association between Indian stock performance and environmental, social, and governance (ESG) ratings was investigated by Goel, P. *et al*. in 2024. According to their results, investors with long-term investments find firms with better ESG ratings more enticing and less volatile.

2.3 Retail Investment Decisions

The Prospect Theory was first presented by Kahneman and Tversky in 1973. This theory explains that the decisions made by retail investors are impacted by psychological biases such as loss aversion, overconfidence, and herd behavior. It was brought to the attention of Barber and Odean (2000) [2] that retail investors frequently engage in excessive trading owing to overconfidence, which results in returns that are less than ideal. It was discovered by Statman that a significant number of retail investors place a higher value on emotional fulfillment than they do on financial benefits. Such investors usually invest in companies that they identify with or those that reflect their beliefs. Even at the expense of short-term profits, retail investors who consider governance, social, and environmental considerations typically attempt to match their investments with their values (Riedl and Smeets). According to Fulton, Kahn, and Sharples (2012) [7], taking governance, social, and environmental concerns into account has a favorable impact on investment choices. Retail investors are increasing their views over ESG compliance as a proxy for organizational resilience and aversion to risks. The National Stock Exchange Investor Survey 2021 set forth that retail investor awareness of environmental, social, and governance (ESG) investing is gradually gaining momentum, with 25-30% of respondents showing an affirmative willingness to embrace ESG-based funds in investment portfolios.

2.4 Factors Influencing Retail Investment Decisions in India

Several key factors that influence Indian retail investors were found by Ranganathan. These factors are risk tolerance, market mood, and access to reliable financial data. Due to increased awareness and the spread of digital platforms, Sehgal, V. *et al*., found that young investors in India are better equipped to take risks through investment in companies that are ESG-friendly. Sharma, *et al*., (2022) highlighted the issue that retail investment trends in Indian cities and semi-cities depend on the level of financial awareness as well as digital accessibility of financial products. Integration of ESG elements in portfolios has been found to enhance diversification by reducing exposure to those companies that reflect high environmental and social risks, as reported by Friede, Busch, and Bassen (2015) [6]. It was established by Goel, P. *et al*., (2024) that Indian companies with higher ESG ratings perform more consistently, hence retail investors view such firms as safer long-term investments. Gupta and Bansal (2021) [9] suggest that retail investors are increasingly making use of ESG-oriented mutual funds as a diversification approach for their portfolios.

The factors influencing ESG disclosure in the Indian stock market are evaluated in this article. The study develops hypotheses on how retail investors' decisions in the Indian stock market are impacted by Environmental, Social, and Corporate Governance (ESG) disclosures. The paper's subsequent sections will be arranged according to: The development of hypotheses that link characteristics of business with the ESG issues; the method of research articulating the sample size, variables, model, and techniques used; reporting the study results and discussion;
followed by an implication of findings for future researches and managerial application.

3. Research Methodology

The following describes the study technique used to investigate how ESG (Environmental, Social, and Governance) concerns affect individual stock market investors in India: This study uses a qualitative approach. Quantitative Analysis is employed to evaluate the statistical correlation between ESG issues and retail investing choices. Concentrates on individual investors in India who invest in ESG-compliant equities or mutual funds. ESG reports and disclosures from publicly traded firms. Business Responsibility and Sustainability Reports (BRSR) by SEBI. Scholarly articles, journal publications, and industry analyses regarding ESG investment. Market information on ESG-focused mutual funds and investment portfolios. Secondary data will be used for the research by the goals of the investigation to arrive at a certain conclusion.

The study makes use of a descriptive methodology, using qualitative insights gleaned from earlier case studies on the subject. After gathering the main data, "secondary data" is used in research methodologies. By saving researchers time and effort, this data streamlines the study. Secondary data research involves finding and analyzing earlier studies. Internet market research websites, educational institutions, libraries, and agency data archives can help. Market research websites, blogs, and data analysis websites abound. A few are free, while some need money. The time, money, and conditions of the first investigation may make each source slightly different. To execute statistical operations like minimum, maximum, mean, and standard deviation, SPSS is utilized as an analytical tool. Dependence on self-reported
information, which might be biased. Restricted generalizability owing to the sample size,
especially for specialized sectors such as rural investors. Obstacles in obtaining precise ESG-related performance data for some organizations.

4. Results and Discussion

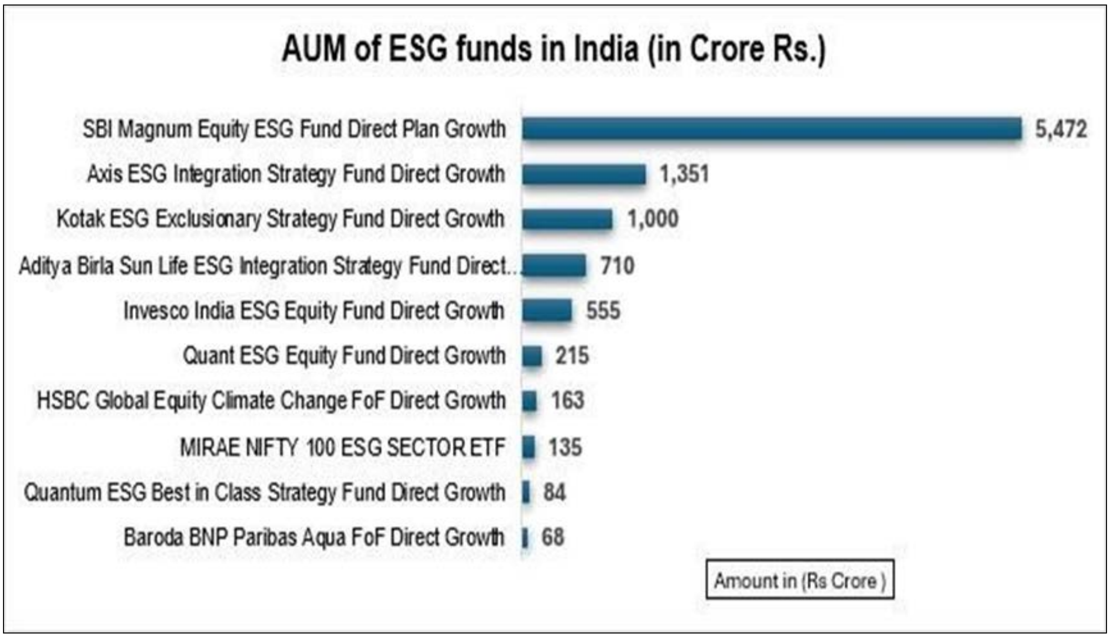
4.1 Hypothesis 1: The extent to which retail investors in India are aware of ESG ideas and the necessity of including them in investment decision-making

4.1.1 Managing Environmental, Social, and Governance Aspects for Sustainable Development: An Overview of ESG Investing in India (Source: IBEF, India Brand Equity Foundation)

Another name for sustainable investment is environmental, social, and governance (ESG) investing, which is an investment strategy that distributes funds to profitable businesses that uphold moral principles. Public companies' commitment to environmental responsibility,
positive community impact, and adherence to high management and corporate governance standards are all assessed by the ESG criteria. ESG-focused investors steer

clear of stocks of businesses that don't adhere to certain governance, social, or environmental norms. Firms with inadequate labor laws or chemical firms that cause major pollution are two examples. The use of ESG investing concepts has been growing globally, and in recent years, several investment funds have included this technique in their strategies.

India has demonstrated significant economic resilience in the face of global issues such as supply chain disruptions, COVID-19 stimulus programs, inflation, climate change, and trade and military wars. Six ESG funds were established in India between 2012 and 2020. According to current statistics, the nation has 11 sustainable investment funds, one passive fund (ETF/Funds of Funds), eight actively managed funds, and two foreign feeder funds are among them. Actively managed funds account for 96% of the assets under management (AUM) in this category, with the top five funds owning 93% of the total. It is the leading fund that holds 56 percent of the total assets under management (AUM).



(**Source:** Groww -AUM as of March 3, 2024)

Fig 1: India's ESG Investment Landscape

The Indian Stock Exchange and Securities Board (SEBI) has recently recommended that ESG funds be established using any one of the six techniques listed below:

Table 1: Strategies for ESG funds

Measurements	Min	Max	Average	SD
Exclusion	1.00	3.00	3.5596	1.4224
Inclusion	1.00	3.00	3.3624	1.3841
Best in Class & Positive Screening	1.00	3.00	3.5586	1.2382
Impact Investing	1.00	3.00	3.5972	1.4748
Sustainable Objectives	1.00	3.00	3.5757	1.4713
Valid N (listwise)	6			

At least 80% of the assets of asset management companies must be invested in stocks or products that are connected to equities in these categories. Furthermore, ESG schemes are required to allocate at least 65% of their AUM to businesses that guarantee BRSR Core disclosures and participate in thorough Business Responsibility and Sustainability Reporting (BRSR). To guarantee that the ass*et al*location and strategy of various schemes differ, mutual funds are required. The AUM of ESG funds increased gradually from US$ 331.4 million (Rs. 2,747.36 crore) on January 31, 2020, to US$ 1176.6 million (Rs. 9,753 crore) on March 3, 2024. With assets under management of US$ 660.2 million (Rs. 5,472 crore), the SBI Magnum Equity ESG Fund is at the forefront of this expanding trend. To closely track the growing interest and financial inflows in Indian companies that adhere to ESG standards, stock exchanges have created specialized indexes. There are now four such indexes in use: the S&P BSE 100 ESG Index, the Nifty 100 ESG Sector Leaders Index, the Nifty 100 Enhanced ESG Index, and the Nifty 100 ESG Index.

4.1.2 The Ascendance of Environmental, Social, and Governance (ESG) Investing in India: A Case Study (Source: Investor Co)

Traditionally, investment choices focused solely on monetary returns. But times are changing.

Today, a new generation of investors is focusing on social impact alongside financial returns. Let me introduce Environmental, Social, and Governance (ESG) investing, a rapidly growing trend in India. Let's examine this interesting case study, and understand the drivers behind the growth of ESG investing and its possible influence on the\
Indian financial sector.

The Emergence of a New Epoch: The Significance of ESG in India. Multiple reasons are driving the growth of ESG investment in India.

- **Escalating Environmental Issues:** Climate change and pollution are urgent challenges in India. Investors are progressively pursuing opportunities to endorse firms with robust environmental procedures.

- **Socially Conscious customers:** Indian customers are more cognisant of the social ramifications of their purchases. This signifies a need for corporations that emphasize ethical labor practices and social accountability.
- **Regulatory Push:** The Indian government is promoting ESG practices by implementing required ESG disclosures for publicly listed corporations.
- **Long-Term Sustainability:** Investors acknowledge that firms with robust ESG processes are more likely to achieve enduring success in a world facing environmental and social issues.

Indian corporations are addressing the increasing need for ESG investment. Presented here are a few motivating examples:

- **Mahindra & Mahindra:** This Indian business excels in electric vehicle (EV) technologies, harmonizing with environmental sustainability objectives.
- **Dabur:** This FMCG behemoth emphasizes sustainable procurement of raw materials and advocates for social welfare activities, exemplifying its dedication to social responsibility.
- **Infosys Foundation:** This prominent IT corporation's foundation actively endorses educational and social development initiatives, exemplifying robust corporate governance procedures.

These instances illustrate how Indian enterprises are incorporating ESG concepts into their fundamental operations, hence appealing to investors concentrated on ESG criteria. Investors can choose investment products that are ESG-oriented. Organizations can embed ESG principles in their operations. Individuals can educate themselves and encourage sustainable behavior. Together, we can create a financial system that is not just profit-oriented but also planet- and people-friendly. Let us be the champions of ESG and turn the Indian financial landscape into a kaleidoscope of green.

4.2 Hypothesis 2: How environmental, social, and governance (ESG) performance affects the stock selection and portfolio diversification strategies of retail investors.

4.2.1 Examining the Influence of ESG Performance on Stock Selection and Portfolio Diversification Strategies of Retail Investors (Source: PwC, India)

The influence of Environmental, Social, and Governance (ESG) aspects has grown in importance for retail investors in their stock selection and portfolio diversification techniques. This is a comprehensive review of the impact of ESG performance on various factors:

ESG Performance and Stock Selection

- Positive Assessment of Retail investors are increasingly focusing on companies with high ESG scores, viewing them as reflective of: Companies with strong environmental performance, like green energy initiatives, which are seen as better able to manage future legislation and resource constraints. Ethical Practices: Firms with good social policies, such as fair labor practices and community involvement, attract socially responsible investors. Corporate Governance: Clear and transparent governance structures build trust among retail investors.
- Negative Screening Retail investors often screen out shares of companies involved in, Ecological harm (e.g., fossil fuel industries). Social issues, e.g., labor violations or discrimination. Governance issues (e.g., fraud or lack of diversity in the leadership).
- ESG as a Risk Management Indicator Companies with strong ESG performance are viewed as having lower volatility and higher resilience to outside shocks, e.g., economic downturns or regulatory changes. Retail investors often view ESG performance as a risk reduction mechanism, particularly in uncertain nations like India.
- Impact of ESG Ratings and Reporting Retail investors depend significantly on ESG scores and reports from entities like MSCI, Sustainalytics, or SEBI's BRSR framework.

Simplified ESG measures and ratings substantially influence company selection, particularly for novice investors.

ESG and Portfolio Diversification Strategies

- **Incorporation of ESG into Portfolio Development:** Retail investors are increasingly incorporating ESG-themed products, like green bonds and socially responsible mutual funds, into their portfolios. Diversification is attained by equilibrating conventional investments with ESG-compliant assets, therefore mitigating sectoral or regional risks linked to unsustainable practices.
- **Sectoral Preference:** Retail investors frequently prefer industries with robust ESG alignment, including renewable energy, technology, and healthcare. Industries characterized by significant carbon emissions or social problems, such as coal mining or tobacco, are generally under-represented in ESG-oriented portfolios.
- **ESG Investment Funds and Exchange-Traded Funds:** The emergence of ESG-themed Exchange-Traded Funds (ETFs) and mutual funds has afforded ordinary investors clear avenues for diversification. These funds often provide pre-diversified access to firms with elevated ESG ratings, facilitating portfolio management for ordinary investors.
- **Sustained Emphasis:** ESG investing promotes a long-term outlook among retail investors, integrating portfolio diversification methods with sustainability objectives. This transition decreases portfolio turnover and related transaction expenses, hence enhancing investment performance stability over time.

Behavioral Impacts of ESG on Retail Investors

Affective and Moral Congruence: A multitude of retail investors select ESG investments to connect their portfolios with personal ideals, so augmenting emotional gratification. This congruence frequently results in enhanced loyalty towards ESG-compliant organizations, affecting long-term retention behavior. Awareness and Education Financial literacy and access to ESG-related education substantially impact the incorporation of ESG in stock selection and diversification strategies. Retail investors possessing a

greater understanding of ESG principles are more inclined to purchase diverse portfolios that prioritize sustainability.
The performance of ESG factors significantly influences retail investors' stock selection and portfolio diversification techniques. The incorporation of ESG principles fosters sustainability and long-term financial stability; nevertheless, obstacles such as data inaccuracy and insufficient knowledge impede widespread implementation. Mitigating these obstacles by education, regulatory assistance, and improved investment alternatives can substantially advance ESG integration among individual investors in India.

4.3 H3: The most recent developments in the Indian stock market concerning ESG-themed funds and the adoption of the products by retail investors.

4.3.1 India intends to enhance the sustainable framework inside the securities sector (Source: Reuters)
The regulatory body for markets in India discussed the possibility of incorporating a new investment product into the framework for sustainable financing that is currently present in the country's securities market. Green securitization, also known as sustainable securitized debt instruments, is a novel term that the Securities and Exchange Board of India (SEBI) implemented. The regulator described green securitization as having sustainable financing credit facilities as the underlying debt. In addition to the green debt instruments that are already in existence, SEBI stated that issuers have the flexibility to raise money through social bonds, sustainable bonds, and sustainability-linked bonds to generate additional funds for sustainable financing. ESG (environmental, social, and governance) considerations are taken into account by investors when making financial investment decisions. This technique is known as sustainable finance.

- The Indian stock market has seen a notable increase in environmental, social, and governance investing, or ESG investing. This increase may be the result of notable advancements in ESG-themed funds and the uptake of these products by regular investors.
- The number of ESG-bound funds in India has increased.
- Asset Under Management (AUM) Growth: Environmental, Social, and Governance (ESG)-focused funds in India have experienced significant growth. A growing interest among investors in environmentally responsible investment opportunities is reflected in the fact that the assets under management (AUM) rose from around $275 million in FY20 to $650 million in FY21. Even though there has been a spike in ESG investing all over the world, India only has about ten mutual funds that are focused on ESG. Compared to the more than five hundred similar funds that are accessible in the US and the UK, this is a minuscule amount. It is evident from this data that the Indian market has a great deal of room to grow.

The NIFTY 100's Environmental, Social, and Governance (ESG) Index has shown promising results. Based on their ESG ratings, this index was created to evaluate the performance of companies that are part of the NIFTY 100. Since its introduction on April 1, 2011, the index has beaten well-known indices like the NIFTY 50 and the NIFTY 100 by 1.8% and 1.3%, respectively. For instance, from its inception, the index has increased by 246% (Source: Equentis).

- The Securities and Exchange Board of India, or SEBI, has taken the lead in advancing sustainable finance. In August 2024, the Securities and Exchange Board of India (SEBI) suggested creating sustainable securitized debt instruments, sometimes referred to as "green securitization," to expand the framework for sustainable finance. This initiative aims to promote the growth of ESG-focused products in the securities market by integrating environmental, social, and governance (ESG) factors into financial decisions (Source: Reuters).
- Indian retail investors are becoming increasingly conscious of the importance of environmental, social, and governance (ESG) factors while making investment decisions. The increasing awareness of and demand for sustainable investment is reflected in the spike in assets under management (AUM) for ESG funds. Despite the good developments, there are also problems, there being a lack of standardized ESG metrics and a limited amount of funding allocated to governance, social, and environmental concerns. The widespread adoption of ESG products by regular investors may be hampered by these problems. To sum up, the Indian stock market is undergoing a dramatic shift towards funds with an environmental, social, and governance (ESG) focus, driven by both growing investor awareness and government support. A positive future for sustainable investing in India is suggested by the growing trend in assets under management (AUM) and the performance of ESG indexes, even though the present number of ESG funds is relatively small.

Table 2: The influence of ESG (Environmental, Social, and Governance) factors on retail investment decisions

Descriptive Statistics				
Measurements	**Mean**	**Kurtosis**	**SD**	**Skewness**
Awareness of ESG Factors Among Retail Investors	2.22	.779	1.184	.286
Impact of ESG Factors on Stock Selection	2.45	.416	1.271	1.001
ESG and Portfolio Diversification Strategies	2.49	.392	1.287	1.042
Complexity in Evaluation	2.54	.461	1.247	.790
Performance of ESG Investments	2.45	.498	1.339	1.019
Growing Awareness but Limited Penetration	2.50	.500	1.418	1.080
ESG as a Key Decision-Making Factor	2.48	.419	1.189	2.660
Role of ESG Funds in Portfolio Diversification	2.57	.283	1.233	2.991
Limiting ESG Adoption	2.61	.429	1.312	2.931
Performance Insights	2.52	.413	1.131	2.440
Valid N (listwise)	10			

5. Conclusion
5.1 Research Outcomes
The findings of this study highlight the rising importance of ESG factors in the process of assisting retail investors while making choices about their investments in the Indian stock market. While environmental, social, and governance (ESG) investment is still in its infancy phase in India relative to developed economies, it increasingly finds its way into the

veins of retail investors. All these factors are furthered by increased awareness, support of regulatory systems, and worldwide sustainability issues. Rising numbers of

retail investors in India become more conscious about environmental, social, and governance factors in their investments, mainly from the urban segments and from younger populations. This may be the reason why, though there is an enormous number of investors who do not yet recognize the significance of environmental, social, and governance factors in their investment choices, knowledge generally remains relatively low.

The choice of stocks is based on a lot of ESG factors, and most investors would want companies with high sustainability and ethics. This is even though the availability of ESG funds and ETFs in the Indian market is still limited. ESG funds and ETFs are now gaining popularity as diversification tools in portfolios. This environmental, social, and governance (ESG) investment has provided competitive returns with lower volatility in India.

5.2 Research Implications

For many stakeholders, it is crucial to investigate how Environmental, Social, and Governance (ESG) aspects impact individual stock market investments in India. The implications include economic, regulatory, social, and intellectual domains, emphasizing the importance of ESG implementation for sustainable development and investment practices. The growing trend towards ESG investments indicates a shift of funds towards companies that focus on sustainability, which can influence business strategy and market forces. ESG investments tend to reduce portfolio volatility and promote long-term financial stability, thus strengthening the robustness of the financial market. The growing popularity of ESG-themed funds offers an opportunity for financial institutions to expand their product portfolios and cater to this emerging market segment.

The increased focus on ESG factors indicates a broader cultural shift towards ethical and responsible investment habits, encouraging corporate responsibility. Retail investors may make well-informed decisions that are consistent with their beliefs and advance the welfare of society by being educated on ESG. The emphasis on ESG investing discourages investment in industries causing environmental or social harm, contributing

to a sustainable and equitable economy. The paper highlights the need for further studies on ESG implementation in developing nations, with a focus on investor attitudes, geographical differences, and sectoral studies. The incorporation of ESG concepts in finance and management education assists in preparing future professionals to integrate sustainability into investment planning.

5.3 Limitations of the Study

The revolutionary potential of ESG variables in influencing the future of the Indian stock market and the investment habits of ordinary investors is highlighted by this study. Stakeholders, including regulators, financial institutions, enterprises, and researchers, must collaborate to address challenges and use opportunities for promoting sustainable investing. India can promote a more resilient, egalitarian, and sustainable economic environment by incorporating ESG concepts into decision-making procedures. The research only looked at individual investors; institutional investors—which are important players in ESG investing—such as mutual funds, pension funds, and insurance firms

were not included. Integrating institutional investors may provide a more comprehensive insight into ESG's impact on the Indian stock market. The absence of universally acknowledged ESG assessment criteria hindered the evaluation of ESG factors' impact on diverse investments. The variability in ESG score methodologies and disclosures hindered the research.

5.4 Scope for Future Research

To effectively use the potential of ESG investment, the subsequent actions are essential: Improved Financial Literacy: Implementing extensive educational programs to promote understanding of the advantages and strategies of ESG investment. Regulatory Enhancements: Fortifying ESG reporting standards and guaranteeing transparency to enable informed decision-making by retail investors. Expansion of ESG Products: Promoting financial institutions to provide a wider array of ESG-oriented funds and investment alternatives customized for the Indian market. Encouraging ESG Investments: Implementing tax advantages or alternative incentives to draw ordinary investors into ESG-focused goods.

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