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# Impact of ESG (Environmental, Social, Governance) factors on Investment Decision

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## Chapter-1

### 1. Introduction

Environmental, Social, and Governance (ESG) factors are becoming critical considerations in investment decision-making. Investors today are no longer focused solely on traditional financial metrics; they increasingly evaluate a company's sustainability practices and ethical standards. ESG has emerged as a framework to assess non-financial factors that significantly affect long-term profitability, risk management, and corporate reputation.

This report offers a comprehensive view of how ESG influences both institutional and individual investors, exploring how ESG scores and practices are being integrated into portfolio selection, asset allocation, and risk evaluation.

### 2. Objectives of the Study

1. To examine how ESG considerations influence investment decision-making.
2. To analyze the degree to which institutional and individual investors include ESG in their portfolio strategies.
3. To evaluate the impact of ESG performance on financial returns and risk profiles of investment assets.

### 3. Hypotheses of the Study

- **H1:** There is a significant relationship between ESG considerations and investment decisions.
- **H2:** There is a significant difference between institutional and individual investors in the extent to which they include ESG considerations.
- **H3:** ESG performance significantly affects risk profiles and financial returns.

**4. Scope of the Study**

This study focuses on publicly listed firms and mutual funds with ESG ratings, especially those included in indices like DJSI and FTSE4Good. It includes a 5–10-year timeframe and draws on both secondary data (ESG ratings, sustainability reports, financial performance) and primary data (interviews and surveys). The research centers on ESG's impact in developed markets while acknowledging its growing relevance in emerging economies.

**Chapter-2**

**5. Literature Review Highlights**

- ESG reporting aligns with stakeholder expectations, particularly in the power sector (Karlapudi & Reddy, 2022).
- Enhanced ESG disclosure positively affects Corporate Financial Performance (Kumar & Firoz, 2022).
- Integrated Reporting and ESG disclosures together boost firm performance (Albitar et al., 2020).
- Individual investors are influenced by social and governance disclosures (Park & Oh, 2022).
- Institutional investors play a vital role in enforcing environmental responsibility (Kim et al., 2019).

**Chapter-3**

**6. Research Methodology**

- **Quantitative Methods:**
  - Data from ESG databases like Bloomberg, MSCI.
  - Tools used: ROA, Tobin's Q, Regression Analysis, Structural Equation Modeling (SEM).
  - Sample: 20 publicly listed companies with available ESG data.

- **Qualitative Methods:**
  - In-depth interviews with 15–20 professionals (investment managers, analysts, ESG consultants).
  - Thematic analysis used to extract patterns and insights.

**Chapter-4**

**7. Key Findings from Data Analysis**

- **Descriptive Statistics:**
  - ESG scores mostly in the "good" range (70–85/100).
  - Governance scores highest, environmental scores lowest.
  - Average ROA across companies: 7.5%.

- **Investor Behavior (Survey Results):**
    - Students and finance professionals make up the majority of respondents.
    - Most prefer mutual funds and stocks.
    - ESG familiarity is moderate; ESG is rarely the primary factor in investment decisions.
    - Environmental factors are rated most important, followed by governance.

**8. ESG Reporting Frameworks**

Several major frameworks guide ESG disclosures:

- **GRI (Global Reporting Initiative):**

Most widely used.

- **SASB (Sustainability Accounting Standards Board):**

Industry-specific metrics.

- **TCFD (Task Force on Climate-related Financial Disclosures):**

Climate risk focus.

- **CDSB and ISSB:**

Promote standardized global reporting.

**9. Top ESG-Rated Companies in 2025**

- **Microsoft** (Software):

Strong ESG Risk Score, carbon-negative goals.

- **Schneider Electric** (Energy):

TIME's #1 sustainable company.

- **Verisure** (Consumer Services):

Negligible ESG risk.

- **BYD** (Electric Vehicles):

Outperformed Tesla in sales.

- **Best Buy, Nvidia, Cementir Holding:**

High ESG ratings from MSCI and Sustainalytics.

## Chapter-5

### 10. Discussion and Interpretation

- **Quantitative results**:

show a clear positive correlation between ESG scores and financial performance.

- **Corporate governance**:

emerged as the strongest ESG pillar influencing investor decisions.

- **Sustainability reporting:**

improves investor confidence but suffers from lack of global standardization.

- Companies with high ESG reputations attract more institutional investment.

### 11. Challenges and Limitations

- Inconsistent ESG data and ratings.
- Limited ESG literacy among individual investors.
- Difficulty in comparing reports due to non-uniform frameworks.
- Constraints in gathering primary data, especially in markets like Nepal.

### 12. Conclusion

ESG has evolved into a crucial aspect of investment decision-making. Beyond financial gains, ESG considerations reflect corporate ethics, sustainability, and long-term risk management. Mutual funds and institutional investors increasingly embed ESG criteria into their strategies, though challenges like data inconsistency and greenwashing persist. ESG is no longer just an ethical choice—it is a strategic imperative.

### 13. Future Research Directions

1. **Data Standardization and Quality:**

Use of AI and blockchain for real-time ESG data validation.

2. **Causal Research Models:**

Employ econometric models to prove causality, not just correlation.

3. **Behavioral Finance:**

Study psychological factors affecting ESG investing.

4. **Differentiated Analysis:**

Deep dive into how E, S, and G impact various sectors differently.

5. **Technology Integration:**

Explore how AI and IoT enhance ESG monitoring and compliance.