

Determinants of Intent to Invest in Esg: A Behavioral Finance and Technology Based Approach

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Abstract

Purpose: The purpose of the study is to evaluate key drivers of intention to invest in ESG integrating a behavioral finance and technology-based approach. The research aimed to investigate how behavioral biases influence ESG investment decisions.

Design/Methodology/Approach: Structural Equation Model using SPSS26. A deductive approach and quantitative data have been used in the current study.

Findings: The findings of the study indicated that there is a significant impact of Attitude towards ESG Investments, social influence, perceived behavioral control, risk perception, and perceived financial return on intention to invest in ESG investments

Practical Implications: Advocating for ESG investments can enhance environmental conservation, social justice, and ethical governance. The study reveals the main elements affecting ESG investment intention, thereby providing information that can help digital investment platforms, policymakers, and financial institutions create effective plans to support ethical investing. Improved participation in ESG investments aids in fostering fair society and sustainable growth of the economy.

Originality Values: This study holds a lot of significance since, it has combined three theories TPB, UTAUT, and Behavioural Finance Theory. This research has assessed the ESG investing determinants. This varied strategy advances and offers insightful analysis of sustainable investing strategies by bridging the technical, behavioural and psychological aspects of investing.

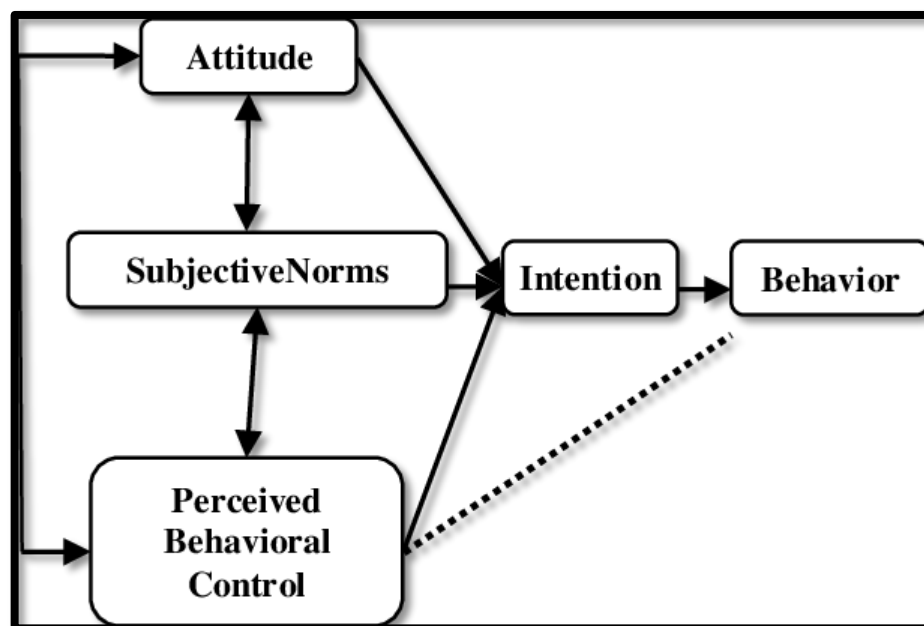
Keywords: Theory of Planned Behaviour, UTAUT, Behavioural Finance Theory, ESG, Structural Equation Model.

1. Introduction:

The growing awareness and knowledge surrounding the Environmental, Social, and Governance (ESG) issues had revolutionized the financial outlook. It has changed and impacted on the way businesses, investors, and financial institutions decide to invest and help the society at large. More people are seen adopting the ESG aspects of investing as they have come to realize the critical need to protect the environment and how important sustainability is for the welfare of the society and long-term economic success. ESG standards have a huge impact on investors' behavior and decision-making that goes way ahead of financial success when they are utilized instead of financial measurements. ESG investments are here for the long run, they are here to stay and researchers should measure the complex influence of investors' behavior. These considerations are quickly becoming more popular in the retailing investment choices due to their feasible nature, sustainable business models, and the awareness of the masses towards the protection of the environment and leaving the world a better place than they were born in. While deciding to invest, the focus of the average investors has expanded to take into consideration environmental and social factors. Likewise, corporate investments started to focus more on sustainability factors. The awareness surrounding ESG is quite evident and widespread as investors are slowly growing more aware of the global trends and in the absence of a defined ESG model for the investment journey. Due to the increased knowledge of ESG, investors' cognitive development, information processing, and belief enrichment on their investments have all changed.

The current trend around the ESG requirements and the shift in need for these investments has been motivated by the dire need for challenges that are being faced globally. The climate change, global warming, social discrimination or inequalities as well as the urgent need for long-term financial benefits of adopting the ESG investments. This study focuses on exploring the impact of ESG requirements on behavioural finance of investors, what are the perspectives and implications of the ESG investments. It aims to study the multitude impact of ESG requirements on the decision-making, also focusing on how these elements influence investors' behaviour.

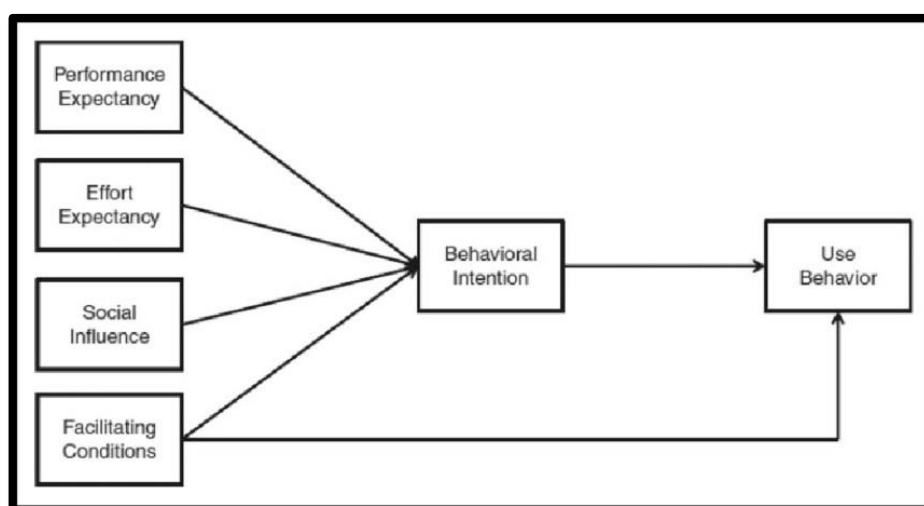
1.1 Theory of Planned Behaviour



Source: Bhuyan, Manjib. (2017). UNDERSTANDING ENTREPRENEURIAL INTENTION OF UNIVERSITY STUDENTS IN UTTARAKHAND: AN EMPIRICAL STUDY. Indian Journal of Commerce and Management Studies. VIII. 93. 10.18843/ijcms/v8i2/13.

Icek Ajzen, a social psychologist, developed a psychological theory known as the Theory of Planned Behaviour (TPB) in the late 1980s. It is an evolution of the Theory of Reasoned Action (TRA), initially proposed by Ajzen and Martin Fishbein. Understanding the cognitive processes that influence an individual's intentions and decision-making is the goal of the theory of planned behaviour (TPB), which attempts to explain human conduct.

1.2 Unified Theory of Acceptance and Use of Technology (UTAUT)



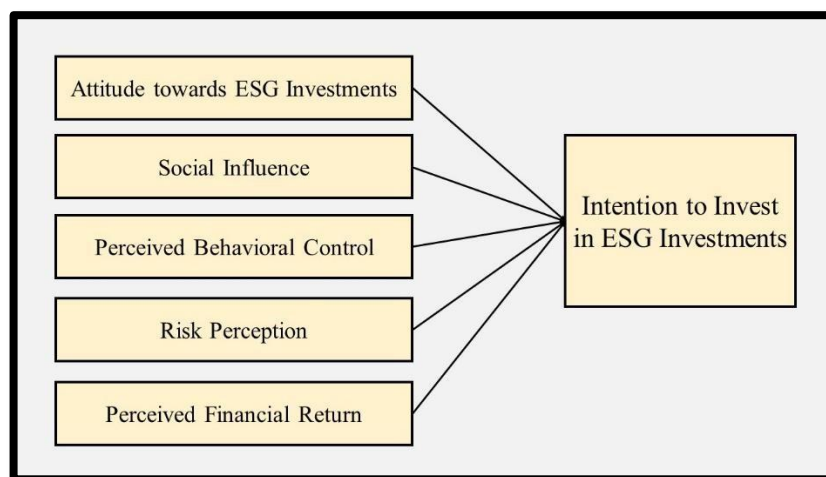
The UTAUT states that "performance expectation, expected effort, social impact, and facilitating conditions" are the four independent variables that affect the behavioural intention of an information system user. According to Venkatesh et al. (2003), performance expectation is "the degree to which using a technology will provide benefits to consumers in

performing certain activities." Effort expectation is "the degree of ease associated with consumers' use of technology". Social influence refers to the degree to which customers believe that significant individuals, such as friends and family, think they ought to utilise a specific technology. According to Venkatesh et al. (2012), "consumers' perceptions of the resources and support available to perform a behaviour" are referred to as facilitating conditions. Behavioural intention is the willingness to utilise the information system that results in real behaviours.

1.3 Behavioural Finance Theory

According to behavioural finance theory, "irrational behaviour, predictable patterns of behaviour, and arbitrage restrictions" in financial markets can cause markets to fail to represent economic fundamentals. When investors neglect to thoroughly evaluate all available information while forming their expectations on a firm's future, they are behaving irrationally. Persistent price fluctuations occur when a significant number of investors display same behavioural patterns (irrational systematic behaviour). Behavioural finance theory posits that several investors have traits such as overconfidence, overreaction, and over-representation, which may be substantial enough to prevent a firm's share price from correctly reflecting the underlying economic realities. Investors may initiate bids for shares and elevate the price if they perceive that a company's present success is a dependable indicator of future performance Rajesh Kumar, (2017).

1.4 Conceptual Framework



2. Review of Literature:

2.1 Fisnik, et al. (2024). examined the intricate connections between financial portfolios and ESG concerns. The outcome of the study indicated that sustainable performance premium has a strong influence on companies that place a huge priority on solid ESG practices. It was also found that those businesses that had good ESG scores were known for their outstanding emphasis on the important role the regulatory reforms on ESG disclosures, Institutional investors have benefited from sustained performance and risk reduction associated with ESG components due to sector-specific details.

2.2 Fuyuan, Wang (2024). The author examined the issues of ESG with the focus to ascertain their impact of performance, process and portfolio underlying it. The following findings are based on Markowitz's portfolio model and Bloomberg's data collection for ten stocks from 2003 to 2023: (1) the inclusion of ESG constraints hurts portfolio performance; (2) the inclusion of ESG constraints shifts the GMVP to the right and decreases the convexity of the efficient frontier, which lowers the performance of the portfolio. In addition to contributing to the body of knowledge on responsible and ESG investing, this study enhances the literature on the factors influencing portfolio performance and can help individuals and organisations make better investment strategy decisions.

2.3 Feifan, Ren. (2024). Explored the association between human behavior and financial markets through the lens of behavioral finance. The findings of the study emphasise that psychological biases have a huge impact on market dynamics and financial decision-making. Important phenomena that draw attention to departures from rational behavior include "loss aversion, short-term momentum, long-term reversal, framing effect, and endowment impact." These biases cause illogical investment decisions and skewed asset appraisals, among other market inefficiencies. The author recommends that resolving these biases may help the market rules to strengthen, improve financial strategies, and produce more behaviourally

and sustainably informed financial models.

2.4 Haonan, Zou. (2024) investigated the basis and application of ESG investments. The author emphasised the current debates surrounding these investments by conducting a thorough examination of the literature. The outcome of the study indicated that although ESG investments were seen as long-term, sustainable, and ethical ways to participate in the financial world, there was growing evidence that these investments may promote a "green bubble," which may expose investors to unforeseen risks. It was also shown that changes in legislation and technological developments have a significant influence on ESG investments.

2.5 Eliza, Eliza. (2024) the author evaluated the effects of incorporating ESG factors into investment choices on the risk profiles and financial returns of investment portfolios and businesses, with a particular emphasis on sustainable investment strategies. It was found that businesses and investment portfolios that gave priority to ESG considerations saw more consistent and long-term financial performance. Increased investor confidence, better long-term returns, and greater risk management have all been linked to ESG inclusion. The case showed that companies with robust ESG policies were more capable of navigating volatile markets and seizing new possibilities, which resulted in sustainability and financial resilience.

2.6 Linda et al. (2023). The purpose of the study was to look into the relationship between sustainable financing and the agency relationships between debtors and financial institutions (FIs). ESG attributes highlight the critical role of financial institutions in taking sustainability as a major factor while allocating funds. The study found that institutions can have unresolved ESG issues at the time of requesting loans, even if have sustainability certificates and administrative safety requirements. The findings demonstrate the necessity for these FIs to offer strong standards and metrics to evaluate the sustainability performance of those businesses that are in debt and also demonstrate the complex nature of sustainable financing. The research also suggests that by creating a hub for information or an overseeing platform to let the important players in the regional context share their expertise and the best practices on subjects related to ESG. It can be concluded that this research only fills the gaps and updates the knowledge of the potential and difficulties of sustainability and puts emphasis on the necessity of including the sustainability factors in financing and lending decisions.

2.7 An, Y., & Madni, G. R. (2023). The study focused on adding to the current body of literature by identifying the external and internal circumstances that companies in China consider while deciding to invest in green investments and also aimed at evaluating its impact on ESG performance of the companies. It was found that the companies in China mostly decide on green investment by getting influenced by their need to adapt and to stop climate change. It was further found that green investments uplift these institutions' ESG performance. This research asserts that organizations can increase their financial standing and their earning, and gain a competitive edge also enhance social welfare, as well protect the environment by simply indulging in green investments. The researchers suggest that governments should promote green investment through the use of instruments such as subsidies, tax incentives, guaranteed credits, and investors' education.

2.8 Rooh, S., El-Gohary, et al. (2023). This study explored the influence ESG factors have on the investment decisions among the investors of the Pakistan Stock Exchange. The study found that the investors have shown interest in ESG integration while also making it clear that they support sustainable development at several levels and also acknowledged the risks involved in poor environmental standards. The findings indicated that the investors had a rational behavior intention while deciding to invest, they showed that there is a strong influence of social, psychological, and economic contributions while investing along with financial gains and bridging traditional and behavioral finance theories. It was also seen that herd behavior and loss aversion had a positive influence on the investors who favored ESG-compliant companies for their perceived financial stability and reduced risks. Overconfidence and decision making, among investors were more like to prioritize their perspective when taking community effects into account.

2.9 Jimnee, Deka., et al. (2023). The study looked at how the traits and non-financial elements, including understanding ESG investing, relate to one another. The study confirmed the significant impact of risk perception on equity investing decisions and discovered a high association between perceived risk and the biases employed for the investigation. Additionally, the findings demonstrated a statistically significant relationship between investors' perceptions of risk and their comprehension of ESG. It is also statistically significant that ESG awareness reduces the negative relationship between investors' perceived risk and the biases employed. This suggests that a higher level of ESG awareness reduces the positive correlation between investors' perceived biases and risk perception.

2.10 Rajdeep, Kumar, Raut., et al. (2023). This study explored the factors that impact the intention of the investors and their attitudes towards ESG attributes when the moderator is perceived risk. The findings indicated that the intention of the investor and their attitude to buy ESG-backed investments were highly influenced by environmental (altruistic value) and economic (egoistic value) factors. It was also found that the behavior of the investor was more positively predicted by environmental concern, which indicates that those individuals who are utility-seeking make their decisions based on pro-environmental values. Additionally, it was discovered that the association between attitude and intention to invest was not significantly impacted by perceived risk as a moderator.

2.11 PG, Makhija., et al. (2023). The study looked at how investors feel about ESG initiatives and how they affect their

choices to invest in developing nations like India. The findings revealed that investors' attitude shaped by their perception of ESG, significantly impacted their investment decisions. Additionally, it was discovered that the relationship between investor views and their investment decisions was moderated by ESG activities, highlighting the growing significance of ESG factors in investing strategies.

2.12 Saini, M., et al. (2023). This study investigated at how ESG research is becoming more and more popular and how businesses and academics are interested in it because of its connection to company financial performance. It was discovered that "legitimacy, signalling, and stakeholders form the foundation of financial success and ESG." Because social enterprises may be less risky, their capital costs are lower. "CSR/ESG determinants and firm performance," "Moderators and Mediators, Investors perception," and "CSR in tourism sector" are the four clusters that the study defined to give readers a knowledge framework.

2.13 Jianhua, Ye., et al. (2022) investigated the impact of investment in ESG activities on the achievement of SDGs in Chinese manufacturing companies and examined the mediating role of organizational effectiveness in this association. The study discovered that funding for social and environmental initiatives had a favorable effect on SDG accomplishment. Furthermore, the association between Chinese manufacturing businesses' investment in ESG activities and their fulfillment of the SDGs was considerably mediated by organizational effectiveness. The results indicated that funding ESG initiatives could assist governments in accomplishing the SDGs.

2.14 Sarfaraz & Husain (2021). This research aimed at ascertaining how the employee's action, knowledge, and attitudes towards finance is influenced by the intentions of the customers towards the bank, and how these attitudes were helping the Indian banks to stay relevant when stay strong when challenges arise. The results of the study showed that the actions, knowledge, and financial attitude of the employees had a pragmatic influence on the long-running of the Indian banks. It was also found that the elements of financial literacy had a huge impact towards enhancing sustainability performance in the banking sector.

3. Objectives of the Study:

1. To evaluate the determinants of intent to invest in ESG investments
2. To give suggestions to enhance ESG investment adoption.

4. Hypotheses:

H1: Attitude towards ESG Investments significantly influences Intention to Invest in ESG Investments

H2: Social Influence significantly influences Intention to Invest in ESG Investments

H3: Perceived Behavioral Control significantly influences Intention to Invest in ESG Investments

H4: Risk Perception significantly influences Intention to Invest in ESG Investments

H5: Perceived Financial Return significantly influences Intention to Invest in ESG Investments

5. Research Methodology:

Table No: 1 Research Methodology

Aspect	Details
Sample Size	210 Individual Investors
Sample Size Determination	Minimum necessary Sample Size: 200. See Figure No: 1 for details
Sampling Method	Non-Random Purposive Sampling
Data Collection	Primary and Secondary

Statistical Technique	Structural Equation Model (SEM)
Statistical Tool	SMARTPLS

Anticipated effect size: ?

Desired statistical power level: ?

Number of latent variables: ?

Number of observed variables: ?

Probability level: ?

Calculate!

Minimum sample size to detect effect: 200

Minimum sample size for model structure: 89

Recommended minimum sample size: 200

Figure No: 1 A-priori SEM sample Size Calculator

6. Data Analysis and Interpretation:

Table No: 2 Reliability and validity

Construct	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Attitude towards ESG Investments,	0.908	0.906	0.617
Social Influence	0.902	0.902	0.648
Perceived Behavioural Control	0.890	0.790	0.558
Risk Perception	0.889	0.889	0.727
Perceived Financial Return	0.875	0.874	0.585
Intention to Invest in ESG investments	0.787	0.790	0.558

The findings for reliability and validity demonstrate that all constructs satisfy the requirements proposed by Hair et al. (2013), with Cronbach's Alpha and Composite Reliability values surpassing 0.70, hence affirming internal consistency. Moreover, Average Variance Extracted (AVE) values above 0.50, indicating sufficient convergent validity. Therefore, the measurement model is deemed both trustworthy and valid for subsequent investigation.

Table No: 3 Discriminant validity

Construct	A	ITI	PBC	PFR	RP	SI
Attitude towards ESG Investments (A)	0.786					
Intention to Invest in ESG investments (ITI)	0.743	0.747				
Perceived Behavioural Control (PBC)	0.760	0.727	0.757			
Perceived Financial Return (PFR)	0.716	0.727	0.684	0.765		
Risk Perception (RP)	0.740	0.664	0.721	0.740	0.853	
Social Influence (SI)	0.770	0.691	0.664	0.738	0.775	0.805

The findings of discriminant validity, evaluated by the Fornell-Larcker criterion, demonstrate that the square root of the Average Variance Extracted (AVE) for each construct (diagonal values) exceeds its correlations with other constructs (off-diagonal values). This verifies that each component is empirically separate from the others, thereby providing sufficient discriminant validity within the model.

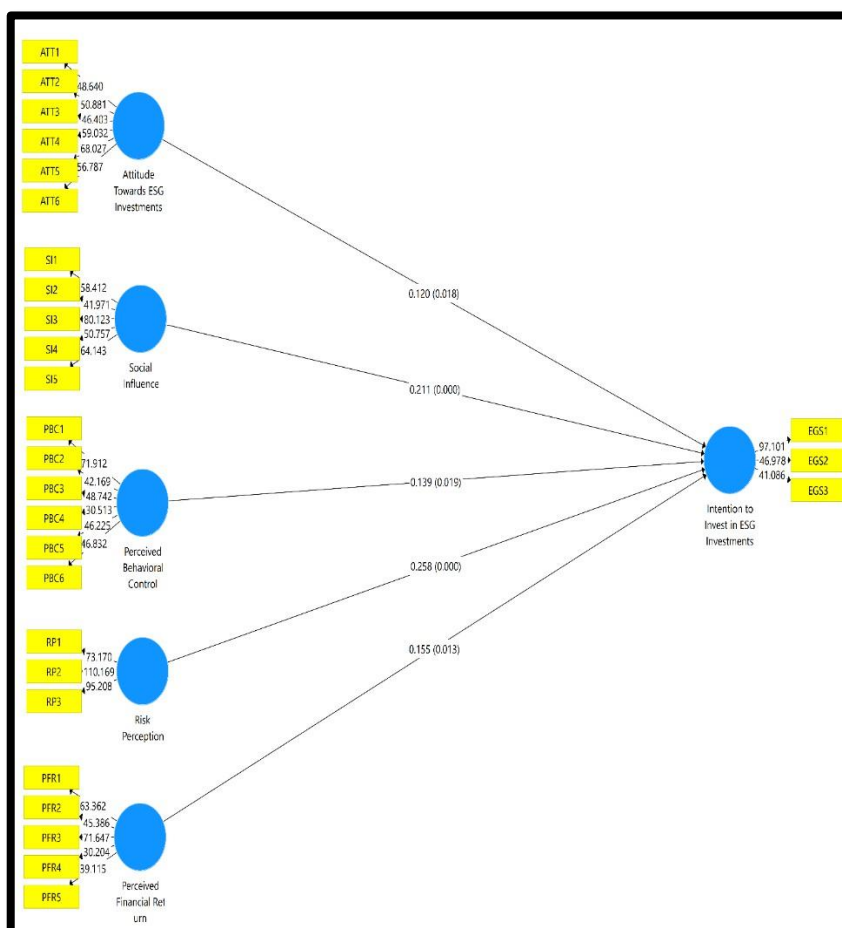


Figure No: 2 SEM model

Table No: 4 Hypothesis testing

Construct	Beta Coefficient	T-statistics	P-Values
Attitude towards ESG Investments $\square$ Intention to Invest in ESG Investments	0.120	2.376	0.018
Social Influence $\square$ Intention to Invest in ESG Investments	0.211	3.835	0.000
Perceived Behavioral Control $\square$ Intention to Invest in ESG Investments	0.139	2.346	0.019
Risk Perception $\square$ Intention to Invest in ESG Investments	0.258	4.016	0.000
Perceived Financial Return $\square$ Intention to Invest in ESG Investments	0.155	2.502	0.013

P (value) < level of significance 5% thus H_0 is rejected and H_1 is accepted in all the cases indicating a significant impact of Attitude towards ESG Investments, social influence, perceived behavioural control, risk perception, and perceived financial return on intention to invest in ESG investments.

7. Conclusion:

The results of the research offer insightful analysis of the elements influencing investors' plans to make Environmental, Social, and Governance (ESG) investments. The findings amply show how strongly factors including attitude towards ESG investments, social influence, perceived behavioural control, risk perception, and perceived financial return affect investor decision- making. A positive attitude and social influence have proven to be significant determinants of intent, indicating that individuals are more prone to taken into consideration ESG investments when perceived as beneficial and socially endorsed. Furthermore, risk perception and anticipated financial returns significantly influence as investors inclination to engage in ESG- oriented portfolios, perceived behavioural control reflects their confidence in making informed investment decisions. In addition to the financial factors, the study emphasises the growing need of matching investment decisions with ideas of sustainability and long-term effect. Understanding these influencing factors in crucial as ESG concerns become front stage on the scene of world investing. The results underline the significance of tackling psychological and informational challenges that investors may come across in addition to providing financial incentives in attempts to increase ESG investing. Hence, it can be concluded that the research supports the need for targeted legislation that can raise more general engagement in ESG investing and help to offer a broader understating of investor conduct in the scope of sustainable finance.

8. Suggestions:

Firstly, there is a dire need for the investor understanding and awareness of ESG investment be promoted, since many of the investors may not be completely aware of the ESG investments and may also not understand the value of the nature of ESG investments, as well as the long- term benefits that these investments have to offer. The prospective financial gains, financial literacy campaigns, education, and online resources, investors should be provided with tools that they get a clear understanding of the consequences of their choices when taken ESG investing into consideration. Secondly, building a strong peer-led or community-based investment networks that allows investors to share their ideas and information can help maximize the social benefit of ESG investing. Modern marketing such as influencer marketing, social media platforms, testimonies from previous investors, and cooperation platforms can help transform positive opinions successfully. Moreover, financial service providers and investment platforms must give importance to make ESG investing solutions more readily available and useable to make sure that the investors are attracted towards it. Thirdly, a well- crafted and strong basic interface could boost investor confidence and speedup the investing procedures. uncertainty and sensible sections by investors can be decreased by dealing with issues such as risk perception and financial performance fact-based

study on ESG asset performance of the past and of the future. Lastly, the government and financial institutions must provide the investors with tax exemptions, subsidies, or green investment projects so as to make ESG investments more attractive.

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