Impact of Environmental, Social and Governance Factors on Investment Decision Among Investors in Nepal

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Abstract

As a key aspect of sustainable finance, Environmental, Social, and Governance (ESG) considerations are gaining prominence in investment decision-making among investors worldwide. ESG factors influence investment behavior by shaping perceptions of risk, return, and corporate responsibility. This study examines the impact of Environmental, Social, and Governance (ESG) factors on investment decisions among individual and institutional investors in Nepal. A descriptive research design was used to assess investors' awareness of ESG factors, while a causal-comparative approach was employed to analyze their impact and relationships with investment decisions. The study employed a quantitative approach, utilizing convenience sampling to collect data from 384 actively investing respondents in the Nepal Stock Exchange (NEPSE), including both individual investors and institutional investors to examine the influence of ESG dimensions on investment decisions. The findings reveal that for overall Nepalese investors environmental factors have an insignificant impact on investment decisions ($\beta = 0.002$, $p = 0.963$), while social ($\beta = 0.391$, $p < 0.01$) and governance factors ($\beta = 0.391$, $p < 0.01$) play a significant role. These findings highlight the need for investment firms to develop products focusing on social and governance factors, while policymakers, including SEBON and NRB, should strengthen ESG integration through regulations and incentives. Enhancing ESG transparency and promoting ESG focused portfolios can further boost investor confidence and drive sustainable investment growth in Nepal. This study offers novel empirical insights into the influence of ESG factors on investment decisions in an emerging market like Nepal, highlighting the primacy of social and governance dimensions over environmental ones among both individual and institutional investors.

Keywords: Corporate governance, environmental factors, investment decision, social responsibility

Introduction

The prominent growth of Environmental, Social, and Governance (ESG) investment is evident, with global sustainably managed assets more than doubling over the last decade, a trend expected to continue until 2030 (Foley et al., 2024). The integration of Environmental, Social, and Governance (ESG) factors into investment decision-making has become a transformative force in global financial markets, with $30.3 trillion now invested in sustainable assets worldwide (GSIA, 2022). While ESG investing was once considered a

niche approach, growing regulatory support, climate risks, and stakeholder activism have propelled it into mainstream financial decision-making (Bolton & Kacperczyk, 2021; Fatemi et. Al., 2018). The growing emphasis on ESG performance in corporate strategies highlights its significant role in enhancing financial stability and market value, with financial performance serving as a crucial mediator in strengthening this relationship (Zhou et al., 2022).

Organizations are increasingly integrating Environmental, Social, and Governance (ESG) principles into their business strategies, recognizing their role in fostering long-term sustainability and resilience. Companies are adopting ESG practices to enhance corporate reputation, improve stakeholder trust, and drive innovation while mitigating financial and operational risks (Kotsantonis & Serafeim, 2019). The evolving regulatory landscape, such as the Corporate Sustainability Reporting Directive (CSRD), is also compelling organizations to adopt transparent ESG reporting and due diligence measures (Boffo & Patalano, 2020). Furthermore, businesses are aligning ESG goals with financial performance, recognizing that sustainable practices contribute to long-term profitability and risk management (Eccles et al., 2014). ESG reporting plays a crucial role in enhancing corporate sustainability by promoting transparency, accountability, and ethical business practices. It not only strengthens an organization's financial and market value but also fosters positive environmental and societal impacts, enabling better stakeholder engagement and long-term business resilience (Aziz & Alshdaifat, 2024).

ESG investing, also known as sustainable or responsible investing, involves incorporating ESG criteria into investment decisions to generate long-term financial returns while promoting positive societal and environmental outcomes (Khan et al., 2016). This approach recognizes that companies with strong ESG practices are better positioned to manage risks, capitalize on opportunities, and create sustainable value for stakeholders (Zhou et al., 2022). ESG investing has gained significant traction in recent years, driven by growing awareness of global challenges such as climate change, social inequality, and corporate governance scandals (Riedl & Smeets, 2017).

The rise of ESG awareness has driven significant growth in socially responsible investing, with a growing number of stakeholders, including contractors, NGOs, and research firms, actively scrutinizing businesses' ESG behaviors (Camilleri, 2021). Institutional investors are increasingly integrating ESG considerations into capital markets, reshaping corporate control by leveraging their ownership stakes to influence management and shareholder activism. This shift has prompted hedge funds to incorporate ESG into their campaigns, fostering a transition from short-term investment strategies to long-term value creation, thereby altering traditional power dynamics among key market participants (Kraik, 2019). While individual investors are increasingly aware of ESG factors, they still prioritize traditional financial metrics such as returns and risk, with ESG considerations often treated as secondary due to challenges like data standardization, greenwashing concerns, and the difficulty of quantifying ESG performance (Banerjee & David, 2024).

The current scenario of ESG investing among both individual and institutional investors in Nepal is still in its early stages and remains relatively underdeveloped, with social and governance factors having a notable influence on investment decisions, while environmental considerations remain limited (Karmacharya, 2023). Despite global

momentum toward integrating Environmental, Social, and Governance (ESG) principles into financial systems, Nepal faces significant barriers in adopting green finance practices, including regulatory challenges, limited green investment opportunities, and a lack of awareness among banking professionals, which hinder its alignment with sustainable development goals (Bhandari et al. 2024).

According to Van Duuren et al. (2016), understanding which dimensions of ESG information investors prioritize is crucial for developing effective ESG frameworks. While awareness of ESG factors is gradually increasing, the extent to which these factors influence investment decisions among different investor groups is not well understood. Additionally, despite the growing global emphasis on sustainable investing, there is a significant gap in the literature regarding the level of ESG awareness and its impact on investment decision-making in Nepal.To address these issues, the main purpose of this research is to assess the level of ESG awareness and examine its impact on investment decisions among both individual and institutional investors in Nepal. By doing so, this study aims to provide valuable insights into how ESG considerations shape investment behavior and contribute to the development of policies that promote sustainable investing in the country.

The significance of this study lies in its dual focus on theoretical contribution and practical relevance. Theoretically, it extends the literature by providing a comparative perspective on individual and institutional investors, particularly in the context of an emerging market. Practically, it offers valuable insights for promoting ESG integration in Nepal, a country where sustainable investing could play a critical role in addressing socio-economic and environmental challenges. This study aligns with key United Nations Sustainable Development Goals (SDGs) by integrating Environmental, Social, and Governance (ESG) factors into investment decision-making. This article focuses on the impact of Environmental, Social, and Governance (ESG) factors on investment decisions, emphasizing how environmental sustainability (SDG 7, SDG 13), social responsibility (SDG 8, SDG 12), and corporate governance (SDG 16, SDG 17) influence ethical financial practices. By integrating ESG principles, investment decisions contribute to sustainable economic growth, ethical business conduct, and long-term financial stability**,** reinforcing the significance of ESG considerations in responsible investing.The findings could inform the development of targeted strategies to enhance ESG awareness, improve regulatory frameworks, and expand the availability of ESG-aligned investment products. The findings of this study could inform the development of targeted strategies to enhance ESG awareness, improve regulatory frameworks, and expand the availability of ESG aligned investment products. For policymakers like the Securities Board of Nepal (SEBON) and Nepal Rastra Bank (NRB), these insights are crucial in shaping policies that encourage responsible investing.

Review of Related Literature

The relevant literature on the topic and theories related to this study are highlighted in the following section:

Theory of Planned Behavior (TPB)

The Theory of Planned Behavior (TPB), developed by Ajzen (1991), posits that an individual's behavior is driven by their intentions, which are influenced by three key factors: attitudes, subjective norms, and perceived behavioral control. In the context of ESG investing, this theory can explain how investors' decisions are shaped by their attitudes toward sustainability, the influence of societal or peer expectations (subjective norms), and their perceived ability to act on ESG principles (perceived behavioral control). Investors'

positive attitudes toward ESG investing are often driven by beliefs in its long-term financial benefits, risk mitigation, and alignment with personal values, as evidenced by studies such as Renneboog et al. (2008). For instance, Raut et al. (2018) found that both attitudes and perceived behavioral control significantly influenced investors' intentions in the capital market, highlighting how an investor's view on sustainable practices impacts their decision to consider ESG factors. Similarly, Warsame and Ireri (2016) observed that perceived behavioral control was critical in the decision to invest in Sukuk, emphasizing that investors' confidence in evaluating ESG criteria is vital for ESG-based decision-making. Gamel et al. (2022) further extended the TPB by incorporating factors like consumption profile, showing that perceived behavioral control and subjective norms significantly influenced intentions to invest in renewable energy, demonstrating how societal expectations and control perceptions shape decisions. In the current study, the Theory of Planned Behavior (TPB) will be utilized to explore how Nepalese investors' attitudes toward sustainability, societal expectations, and perceived behavioral control influence their decisions to integrate ESG factors into their investment choices. This framework will help assess how these factors shape investors' intentions and behaviors in the context of ESG investing in Nepal.

Stakeholders Theory

Stakeholder Theory, introduced by Freeman (1984), posits that organizations should create value not only for shareholders but also for all stakeholders, including employees, customers, suppliers, communities, and the environment. This theory challenges the traditional shareholder-centric view by emphasizing the importance of balancing the interests of multiple stakeholders to achieve long-term sustainability and success. In the context of ESG investing, Stakeholder Theory provides a robust framework for understanding why investors may prioritize environmental, social, and governance factors in their decision-making processes. Stakeholder theory emphasizes that businesses must create value for all stakeholders, and in the context of sustainable investment, ESG integration serves as a crucial tool to align investment decisions with long-term value creation, despite concerns over greenwashing and the need for a more holistic framework (Talan et al., 2024). Board composition plays a crucial role in enhancing ESG investment by improving transparency, reducing information asymmetry, and aligning corporate governance with stakeholder interests, while financing decisions further moderate this relationship (Zhu et al., 2024). Sustainable investment (SI) integrates ESG factors as signals to reduce information asymmetry, allowing investors to assess a firm's true quality and align investment decisions with long-term stakeholder value creation (Huang, 2022). This study will apply Stakeholder Theory to explore how Nepalese investors incorporate ESG factors into their investment decisions, emphasizing the importance of balancing the interests of various stakeholders, including the environment and communities.

Environmental Factors

Environmental factors reflect a company's commitment to sustainability through responsible resource management, emission reduction, and adherence to environmental regulations. Companies with strong environmental policies tend to attract investors who consider climate risk as a financial risk (Friede et al., 2015). Research suggests that firms with strong environmental performance tend to attract more investors due to their lower exposure to regulatory risks and potential for long-term financial stability (Broadstock et al., 2021). Moreover, green investment initiatives and carbon reduction commitments have been positively linked to firm valuation and investor sentiment (Giese et al., 2019). Environmental transparency influences investment decisions by reducing information

asymmetry and signaling long-term corporate stability (Fatemi et al., 2018). The integration of environmental considerations in investment decisions is increasingly relevant, as firms with higher environmental performance tend to exhibit better financial resilience and risk mitigation capabilities (Huang et al., 2021).

Social Factors

Social factors pertain to a company's impact on its stakeholders, including employees, customers, suppliers, and communities (Sultana et al., 2018). These factors encompass issues such as human rights, labor standards, workplace safety, diversity and inclusion, and community engagement (Huang, 2018). Companies that prioritize social responsibility are more likely to attract investors who value ethical and inclusive business practices (Amel-Zadeh & Serafeim, 2018). For example, investors may favor firms that ensure fair wages, prohibit child labor, and promote gender equality in their supply chains (Sultana et al., 2018). Companies with strong social initiatives, such as ethical labor practices and community involvement, often experience improved financial performance due to enhanced corporate reputation and customer loyalty (Servaes & Tamayo, 2013). Additionally, investors increasingly consider social factors in portfolio selection, especially in markets with high public awareness of social responsibility (Gillan et al., 2021).

Governance Factors

Governance factors refer to the systems and processes that ensure a company is managed in a transparent, accountable, and ethical manner (Keasey et al., 1998). Key governance attributes such as board independence, executive compensation structures, and transparency in financial reporting are positively associated with firm valuation and investment attractiveness (Li et al., 2020). Strong governance practices are essential for building investor confidence, as they reduce the risk of fraud, corruption, and mismanagement (Eccles et al., 2014). Moreover, weak governance frameworks can lead to financial mismanagement and reputational damage, deterring both institutional and individual investors (Andreou et al., 2016).

Investment Decision

Envestment decisions refer to the choices made by individuals or institutions to allocate resources to specific financial assets, based on a combination of technical analysis, fundamental analysis, and behavioral factors (Metawa et al., 2019). A study by Raut et al. (2023) found that investors' personal values significantly impact their attitudes and intentions toward ESG stocks, with perceived risk acting as a moderating factor. Rational investors traditionally base their decisions on fundamental and technical analyses, but behavioral biases and non-financial factors are increasingly shaping investment patterns (Baker et al., 2019). For example, investors may choose to buy or sell securities based on a company's environmental, social, and governance performance, as well as its alignment with their personal or institutional values (Amel-Zadeh & Serafeim, 2018). As ESG awareness grows, investment frameworks are evolving to integrate non-financial metrics alongside traditional financial indicators, ensuring more informed and responsible investment choices (Gillan et al., 2021).

Hypothesis Development: Environmental factors play a critical role in shaping investment decisions, as investors increasingly prioritize companies that demonstrate strong environmental performance. Both individual and institutional investors are placing more emphasis on a company's environmental practices when making investment choices (Giese et al., 2019). For individual investors, environmental information, such as a company's commitment to reducing carbon emissions, adopting green technologies, and managing

natural resources responsibly, significantly influences their investment choices (Ferrero-Ferrero et al., 2016). Institutional investors, driven by the desire for financial stability and risk management, tend to place significant value on environmental risks, such as regulatory compliance and carbon footprint reduction, viewing them as vital for long-term performance (Alsayegh et al., 2020). Institutional investors increasingly prioritize environmental sustainability, focusing on factors like greenhouse gas emissions, pollution control, and eco-friendly innovations as critical determinants of long-term financial stability and corporate responsibility (Park & Jang, 2021). Investors, particularly in developing countries, exhibit a growing interest in ESG investments, favoring companies that implement advanced environmental technologies and processes, as they perceive such firms to be more sustainable and less risky in the long run (Husnah et al., 2023). Investors prioritize companies that adopt advanced environmental processes, proper waste management, and emission reduction strategies, as they perceive environmentally responsible firms to be less risky and more sustainable for long-term investment returns (Sultana et al., 2018). To the contrary, Chan and Milne (1999) found no substantial investor response to disclosures highlighting a company's superior environmental performance, suggesting that such information may not significantly influence investment decisions.Thus, the hypothesis in this study is concluded as follows:

H_{1a}: Environmental factors have a positive effect on the investment decisions of individual investors.

H_{1b}: Environmental factors have a positive effect on the investment decisions of institutional investors.

Social factors, which encompass a company's impact on its employees, customers, suppliers, and communities, are increasingly important for investors seeking to align their portfolios with ethical and inclusive practices (Huang, 2021). For individual investors, social considerations such as fair labor practices, workplace safety, and community engagement are key determinants of investment decisions (Sultana et al., 2018). Individual investors are more likely to support companies that demonstrate a commitment to social responsibility, as these practices resonate with their personal values (Amel-Zadeh & Serafeim, 2018; Xie et al., 2019). For institutional investors, social factors are critical for managing reputational risks and ensuring long-term sustainability (Rounok et al., 2023). Social aspects, including human rights, customer satisfaction, and employee welfare, play a vital role in investment decisions, with long-term investors favoring companies that foster strong stakeholder relationships and ethical business practices (Park & Jang, 2021).Investors exhibit a strong preference for companies that prioritize social issues such as employee safety, human rights, and transparency, as they perceive these factors to contribute to both social and economic benefits, aligning ESG considerations with traditional financial and behavioral finance theories (Husnah et al., 2023). Social factors in ESG reporting play a crucial role in investment decisions, as financial actors in emerging markets, like Tunisia, prioritize social and governance information over environmental aspects when assessing corporate performance and making investment allocations (Khemir et al., 2019). To the contrary, Teoh and Shiu (1990) found that social responsibility information (SRI) disclosed in annual reports had no significant impact on institutional investors' decisions, suggesting that such disclosures alone are not a determining factor in investment choices.Based on this literature, the following hypothesis are proposed:

H_{2a}: Social factors have a positive effect on the investment decisions of individual investors.

***H₂ᵦ***: Social factors have a positive effect on the investment decisions of institutional investors.

Governance factors, which include board composition, executive compensation, shareholder rights, and internal controls, are essential for ensuring transparency and accountability in corporate management (Keasey et al., 1998). Investors are increasingly looking at a company's governance structure, including board independence, executive compensation, and shareholder rights, as important determinants of long-term value creation and risk management (Bebchuk et al., 2009). For individual investors, strong governance practices, such as independent boards and robust audit mechanisms, enhance trust and confidence in a company's management (Amel-Zadeh & Serafeim, 2018). Corporate governance is a key consideration for investors, as they prioritize companies with independent and accountable boards, strong audit structures, and adherence to financial reporting standards, associating good governance practices with long-term financial stability and reduced investment risk (Husnah et al., 2023). : A transparent and accountable governance structure, including shareholder rights, CEO reputation, and risk management, remains a key criterion for institutional investors seeking companies with reduced financial and operational risks (Park & Jang, 2021). Investors emphasize strong corporate governance by prioritizing an effective board structure, independent auditors, and financial transparency, associating these factors with reduced investment risk and long-term financial stability, while also showing a willingness to pay a premium for companies with strong ESG practices (Sultana et al., 2018). In markets where government stability and regulatory transparency differ, this impact is especially evident, leading investors to reduce their investment durations in order to protect themselves from sudden shifts in market conditions (Rau & Yu, 2023). Thus, from these literature, hypothesis can be drawn as follows:

H₃ₐ: Governance factors have a positive effect on the investment decisions of individual investors.

H₃ᵦ: Governance factors have a positive effect on the investment decisions of institutional investors.

Based on past empirical studies and the above hypothesis, the theoretical framework of the study is as follows

Figure 1

Theoretical Framework Showing the Relationship between ESG Factors and Investment Decision
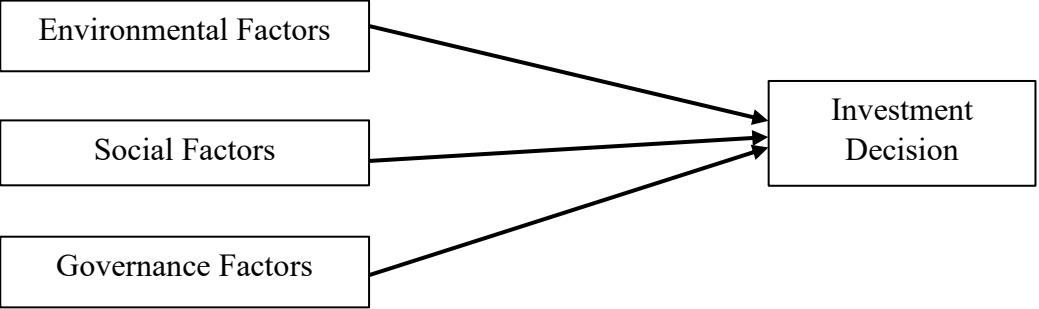
Research Methodology

The study aimed to explore the impact of Environmental, Social, and Governance (ESG) factors i.e. environmental performance, social responsibility, and governance quality on investment decisions among individual and institutional investors in Nepal. A descriptive and causal-comparative research design was adopted to examine how investors' awareness of ESG factors influences their decision-making processes and to determine the causal relationships between ESG factors and investment decisions. The descriptive aspect of the research helps in understanding the current state of ESG awareness and investment behavior among Nepalese investors, providing insights into their preferences, perceptions, and level of engagement with ESG-aligned investments. Meanwhile, the causal-comparative approach investigates whether and how ESG factors significantly influence investment decisions. A quantitative methodology was used to test the hypotheses and analyze the causal connections among the variables, ensuring an objective and data-driven assessment of ESG's role in investment decision-making.

Data collection involved a structured online questionnaire distributed through digital platforms, targeting both individual and institutional investors in Nepal. The questionnaire comprised two sections: the first gathered demographic information, while the second measured ESG factors and investment decisions using a 5-point Likert scale ranging from strongly disagree (1) to strongly agree (5). The 5-point Likert scale was chosen for **its** simplicity, ease of understanding, and ability to capture a balanced range of response**s**, allowing respondents to express varying degrees of agreement or disagreement without overwhelming them with too many options (Joshi et al., 2015). Research suggests that a 5-point scale enhances response reliability and reduces cognitive load**,** making it particularly effective for measuring perceptions and attitudes in financial decision-making contexts (Dawes, 2008).Environmental, social, and governance issues were measured using six items each, adapted from the works of de Zwaan et al. (2015), Aich et al. (2021), and other relevant sources such as the United Nations Global Compact (2004) and the Thomson Reuters Corporate Responsibility Index (2013). These items evaluated how investors perceive the integration of environmental sustainability, social responsibility, and corporate governance practices in investment decisions. Investment decisions, as the dependent variable, were measured through six items adapted from Shah et al. (2018), Hofmann et al. (2008), and Adam and Shauki (2014). These items assess factors such as risk tolerance, moral

responsibility, and the alignment of investment decisions with socially responsible practices.

Convenience sampling was employed to select 384 respondents, comprising both individual and institutional investors who are actively engaged in the Nepalese stock market (NEPSE). This sample size aligns with similar studies in the field, such as Barlett et al., (2001) and Sultana et al. (2018), which used a comparable sample size to ensure representativeness. This sampling method was chosen to align with the research objectives and to ensure efficient data collection. The use of cross-sectional data, where information is gathered at a single point in time, was suitable for this study as it allowed for an analysis of investor perceptions and behaviors at that specific moment. However, there are limitations associated with using cross-sectional data. Firstly, it does not provide insights into how investor behavior or perceptions evolve over time, limiting the ability to identify trends or causal relationships. Cross-sectional studies capture data at a single point, which may not reflect changes in behavior or external influences over time (Grujicic & Nikolic, 2021). Furthermore, convenience sampling could introduce selection bias, as it relies on readily accessible respondents rather than random selection. This non-probability sampling method may lead to an overrepresentation or underrepresentation of certain groups, potentially affecting the representativeness of the sample and limiting the generalizability of the findings (Etikan et al., 2016). Despite these limitations, convenience sampling was deemed appropriate for the research objectives, providing useful insights into the impact of ESG factors on investment decisions in the Nepalese stock market.

Statistical methods were employed to analyze the collected data, focusing on descriptive and inferential statistics. Descriptive statistics, including measures of central tendency (mean, standard deviation), were used to summarize investors' awareness of ESG. Inferential statistical techniques were applied to compare the influence of ESG factors across different investor types (individual vs. institutional) and to examine their causal relationships and impact with investment decisions. Correlation analysis was conducted to explore the relationships among key variables, while regression analysis was performed to identify the influence of environmental, social, and governance factors on investment decisions. Before conducting regression analysis, several assumptions were tested to ensure the adequacy of the models. Linearity was assessed using scatterplots to confirm that the relationships between the independent variables (environmental, social, and governance factors) and the dependent variable (investment decisions) were linear. Normality of the residuals was checked through Q-Q plots and the Shapiro-Wilk test, indicating that the residuals followed a normal distribution. Homoscedasticity was evaluated using residual plots, confirming that the variance of residuals remained constant across predicted values. Finally, no multicollinearity was found, as indicated by Variance Inflation Factor (VIF) values below the threshold of 5 for each independent variable, ensuring that the predictors were not highly correlated with each other. The following regression model was utilized to assess the impact of ESG factors on investment decisions:

$ID=\alpha+\beta_1 EF+\beta_2 SF+\beta_3 GF+\mu$. where ID represents investment decisions, EF represents environmental factors, SF represents social factors, GF represents governance factors, α is the intercept, β_1, β_2, β_3 are the regression coefficients, and μ is the error term.

Results and Discussions

The demographic characteristics of investors participating in this study are presented in terms of gender, age, education qualification, and role in investment decision-making, annual income, duration of involvement in investment activities, and the size of their investment portfolio. The data collected through the questionnaire regarding these demographic variables were recorded and analyzed using SPSS. The summary of the demographic characteristics of the respondents is presented in Table 1.

Table 1

Demographic Profile of Respondents   *N = 384*

Demographic Variables	Category	Frequency	Percentage
Gender	Male	300	78.1
	Female	84	21.9
Age	Below 20	16	4.2
	21-30 years	96	25
	31-40 years	128	33.3
	41-50 years	104	27.1
	Above 50 years	40	10.4
Education Qualification	Below Plus 2	22	5.7
	Bachelors	116	30.2
	Masters	144	37.5
	Masters and Above	102	26.6
Role in Investment Decision	Individual Investor	296	77.1
	Institutional Investor	88	22.9
Annual Income	Below Rs 300000	55	14.3
	Rs 300001 - Rs 500000	31	8.1
	Rs 500001 - Rs 700000	66	17.2
	Rs 700001 - Rs 900000	90	23.4
	Above Rs 900000	142	37
Duration of Involvement	Less than 1 year	44	11.5
	1-3 years	89	23.2
	3-5 years	86	22.4
	More than 5 years	165	43
Size of Investment Portfolio	Less than Rs 200000	44	11.5
	Rs 200001 - Rs 1000000	53	13.8
	Rs 1000001 - Rs 1800000	79	20
	Rs 1800001 - Rs 2600000	69	18
	Above Rs 2600000	139	36.2

Table 1 presents the demographic profile of the respondents (N = 384). The majority were male (78.1%), while females accounted for 21.9%. This significant difference may reflect a higher participation rate of male investors in the study, possibly due to the nature of the investment environment or cultural factors. In terms of age distribution, the largest group

of respondents (33.3%) fell within the 31-40 years range, followed by 27.1% in the 41-50 years category and 25.0% in the 21-30 years bracket. Only 4.2% were below 20 years, and 10.4% were above 50 years. This suggests that middle-aged individuals are the most active participants in investment activities. Regarding educational qualifications, the majority of respondents (37.5%) held a Master's degree, while 30.2% had a Bachelor's degree and 26.6% had qualifications beyond a Master's degree. A small percentage (5.7%) had education below Plus 2. This indicates that the respondents are generally well-educated, which may influence their investment decisions and strategies.

When it comes to their role in investment decision-making, 77.1% of the respondents identified as individual investors, while 22.9% were institutional investors. This highlights the dominance of individual investors in the sample. The annual income distribution reveals that 37.0% of respondents earned above Rs 900,000, followed by 23.4% in the Rs 700,001– 900,000 range. Only 14.3% earned below Rs 300,000, suggesting that higher-income individuals are more likely to engage in investment activities. In terms of experience, 43.0% of respondents had been involved in investment activities for more than 5 years, while 23.2% had 1-3 years of experience. A smaller proportion (11.5%) had less than 1 year of experience, indicating that a significant portion of the respondents are seasoned investors. Finally, the size of the investment portfolio shows that 36.2% of respondents had portfolios valued above Rs 2,600,000, followed by 20.0% in the Rs 1,000,001–1,800,000 range. Only 11.5% had portfolios below Rs 200,000, suggesting that most respondents have substantial investment holdings.

Reliability and Multicollinearity Test Results

Table 2

Reliability and Multicollinearity Test Results

Variables	Items	Cronbach's Alpha	VIF (Overall)	VIF (Individual)	VIF (Institutional)
Environmental Factors(E)	6	0.841	3.006	2.715	2.590
Social Factors(S)	6	0.794	3.838	3.491	2.987
Governance Factors(G)	6	0.743	2.420	2.190	2.006
Investment Decision(ID)	6	0.757	-	-	-

Table 2 demonstrate the reliability and multicollinearity diagnostics for the key variables in the study. Cronbach's Alpha values indicate the internal consistency of the constructs, with all variables exceed in demonstrates the acceptable threshold of 0.70 (Hair et al., 2010), confirming adequate reliability. Environmental Factors (E) reported the highest reliability ($\alpha=0.841$), followed by social factors (S) ($\alpha=0.794$), Investment Decision (ID) ($\alpha=0.757$), and Governance Factors (G) ($\alpha=0.743$).

The Variance Inflation Factor (VIF) values, computed separately for the overall model, individual investors, and institutional investors, assess multicollinearity among predictors. All VIF values remain below the critical threshold of 5 (Hair et al., 2010), indicating no significant multicollinearity concerns. Among the ESG factors, Social Factors (S) exhibit the highest VIF across all models, with values of 3.838 (overall), 3.491 (individual), and

2.987 (institutional), suggesting moderate correlation but within acceptable limits. The governance factors (G) report the lowest multicollinearity risk, with VIF values consistently below 2.5. Overall, the results confirm the constructs' reliability and the absence of multicollinearity issues, ensuring the robustness of the regression analysis.

Investors Awareness towards ESG Dimensions

Table 3

Investors Awareness towards ESG Dimensions   *N = 384*

Variables	Category	Frequency	Percentage
Investors Awareness	Not familiar at all	44	11.3
	Have heard of ESG but nor actively considering it in investment decisions	75	19.5
	Somewhat familiar with ESG factors and consider them occasionally	151	39.3
	Very familiar with ESG factors and actively integrate them in investment decision	72	18.8
	Expert in ESG factors and focus heavily on them in investment decision	42	10.9

Table 3 shows the level of investor awareness regarding ESG dimensions and their primary investment objectives. The majority of respondents (39.3%) are somewhat familiar with ESG factors and consider them occasionally in investment decisions. A significant proportion (19.5%) have heard of ESG but do not actively integrate it, while 11.3% are not familiar with ESG at all. Only 18.8% actively incorporate ESG in their decisions, and 10.9% identify as experts who heavily focus on ESG factors. This indicate that while some investors are aware of ESG factors, the majority exhibit a moderate level of awareness and only a small proportion actively integrate ESG considerations into their investment decisions.

Investors Perception on ESG Dimensions
Table 4
Investors Perception on ESG Dimensions

Variables	Overall(N=384)	Individual(N=296)	Institutional(N=88)
Environmental Factors	Mean: 3.626	Mean: 3.480	Mean: 4.119
	Std. Deviation: 0.768	Std. Deviation: 0.751	Std. Deviation: 0.609
Social Factors	Mean: 3.783	Mean: 3.661	Mean: 4.197
	Std. Deviation: 0.654	Std. Deviation: 0.660	Std. Deviation: 0.425
Governance factors	Mean: 3.9631	Mean: 3.857	Mean: 4.318
	Std. Deviation: 0.564	Std. Deviation: 0.564	Std. Deviation: 0.397

Table 4 illustrates the perception of investors toward ESG (Environmental, Social, and Governance) dimensions, comparing the overall sample with individual and institutional investors. Governance Factors emerge as the most positively perceived dimension, with the highest overall mean score of *3.963 (SD = 0.564)*. This indicates that investors, particularly institutional investors, place significant importance on governance practices in their decision-making. Institutional investors demonstrate the strongest agreement, with a mean score of *4.318 (SD = 0.397)*, reflecting their advanced integration of governance principles compared to individual investors, who scored *3.857 (SD = 0.564)*. Social Factors rank second, with an overall mean score of *3.783 (SD = 0.654)*. Institutional investors again exhibit higher perception levels, with a mean of *4.197 (SD = 0.425)*, compared to individual investors, who scored *3.661 (SD = 0.660)*. This suggests that institutional investors are more attuned to the social aspects of ESG, while individual investors show moderate awareness. Environmental Factors have the lowest overall mean score of *3.626 (SD = 0.768)*, though institutional investors still perceive them more positively, with a mean of *4.119 (SD = 0.609)*, compared to individual investors, who scored *3.480 (SD = 0.751)*. The lower scores for environmental factors may indicate that investors prioritize governance and social factors more heavily, or that environmental considerations are less integrated into their decision-making processes. The standard deviations reveal that institutional investors demonstrate less variability in their responses compared to individual investors, suggesting greater consensus among institutional investors regarding the importance of ESG dimensions.

Relationship between ESG Factors and Investment Decision
  Table 5
  Relationship between ESG Factors and Investment Decision

Variables	Model I (Overall) Correlation(r) Investment Decision	Model II (Individual) Correlation(r) Investment Decision	Model III (Institutional) Correlation(r) Investment Decision
Investment Decision(ID)	1	1	1
Environmental Factors(E)	0.632**	0.560**	0.689**
Social Factors(S)	0.749**	0.708**	0.764**
Governance Factors(G)	0.734**	0.694**	0.718**

**. Correlation is significant at the 0.01 level
**. Correlation is significant at the 0.05 level

Table 5 exhibits the correlation between ESG factors and investment decision across three models: Overall (Model I), Individual Investors (Model II), and Institutional Investors (Model III). The results indicate a statistically significant relationship between Environmental (E), Social (S), and Governance (G) factors and investment decision-making at the 0.01 significance level across all models.

In Model I (Overall Investors), Social Factors (S) exhibit the strongest correlation with investment decisions ($r = 0.749, p < 0.01$), suggesting that investors, on average, consider social dimensions such as corporate social responsibility, ethical labor practices, and societal impact when making investment choices. Governance Factors (G) follow closely with a correlation of $r = 0.734$ ($p < 0.01$), indicating that corporate governance structures, transparency, and regulatory compliance significantly influence investment decisions. Environmental Factors (E) also demonstrate a strong correlation ($r = 0.632, p < 0.01$), reflecting investor concern for sustainability, climate change policies, and environmental impact in their decision-making process.

For Model II (Individual Investors), a similar trend is observed, with social factors (S) having the highest correlation ($r = 0.708, p < 0.01$), followed by governance factors (G) ($r = 0.694, p < 0.01$), and environmental factors (E) ($r = 0.560, p < 0.01$). These findings indicate that while individual investor's value social and governance aspects in their investment decisions, they place relatively less emphasis on environmental factors compared to institutional investors.

In Model III (Institutional Investors), Social Factors (S) again exhibit the highest correlation ($r = 0.764, p < 0.01$), followed by environmental factors (E) ($r = 0.689, p < 0.01$) and governance factors (G) ($r = 0.718, p < 0.01$). Notably, institutional investors show a stronger correlation between Environmental Factors and investment decisions compared to individual investors, suggesting that institutions are more committed to integrating sustainability and environmental concerns into their investment strategies.

Impact of ESG Factors on Investment Decision
Table 6

Impact of ESG Factors on Investment Decision

Variables	Model I (Overall)	Model II (Individual)	Model III (Institutional)
Environmental Factors(E)	0.002*** (0.040)	-0.042*** (0.047)	0.118*** (0.073)
Social Factors(S)	0.391*** (0.053)	0.397*** (0.060)	0.419*** (0.112)
Governance Factors(G)	0.391*** (0.049)	0.379*** (0.056)	0.366*** (0.099)
R-Squared	0.625	0.569	0.663
Adj R-Squared	0.622	0.565	0.651
F-Statistics	211.297***	128.586***	55.167***

*, **, & *** means the coefficient is significant at 10%, 5% and 1% level of significance respectively. The values in the parenthesis are standard errors.

Table 6 illustrates the regression results examining the impact of environmental (E), social (S), and governance (G) factors on investment decisions across three models: Model I (Overall), Model II (Individual Investors), and Model III (Institutional Investors).

In the overall model, environmental factors have an insignificant impact on investment decisions ($\beta = 0.002$, $p = 0.963$), indicating that environmental considerations do not play a significant role in influencing investment decisions. On the other hand, both social ($\beta = 0.391$, $p < 0.01$) and governance factors ($\beta = 0.391$, $p < 0.01$) show strong positive impacts, emphasizing their importance in driving investment choices. The model explains 62.5% of the variance in investment decisions (*R-squared* = *0.625*), with a significant *F*-statistic of *211.297* ($p < 0.01$), confirming the relevance of ESG factors in shaping investment behavior.

For individual investors, social and governance factors continue to have a strong positive influence on investment decisions. The social factor ($\beta = 0.397$, $p < 0.01$) remains the most significant driver, followed by the governance factor ($\beta = 0.379$, $p < 0.01$). Interestingly, environmental factors show a negative impact on investment decisions ($\beta = -0.042$, $p > 0.01$), suggesting that individual investors may consider environmental concerns as secondary or even counterproductive to their investment goals. The *R*-squared value of 0.569 suggests that 56.9% of the variability in individual investors' decisions is explained by ESG factors. The model's overall significance is supported by an F-statistic of *128.586* ($p < 0.01$).

The institutional investor model demonstrates the strongest explanatory power among the three models, with an *R-squared* value of *0.663*. Environmental factors show a stronger positive impact ($\beta = 0.118$, $p < 0.01$) compared to the overall and individual models, indicating that institutional investors place greater emphasis on environmental

considerations. However, the environmental factor shows a positive but insignificant impact ($\beta = 0.118$, $p = 0.112$). Despite the positive coefficient, the high p-value suggests that environmental considerations do not significantly influence the decision-making process. Social ($\beta = 0.419$, $p < 0.01$) and governance factors ($\beta = 0.366$, $p < 0.01$) also have significant positive impacts, with social factors being the most influential. The model's high explanatory power and significant F-$s$tatistic of 55.167 ($p < 0.01$) highlight the critical role of ESG factors, particularly social and environmental aspects, in shaping institutional investment decisions. This model demonstrates the alignment of institutional investors with sustainability and long-term value creation.

The results of this study show that environmental factors have no significant impact on investment decisions, which contradicts previous studies that emphasize their importance. In the overall model, environmental factors did not significantly affect investment decisions, aligning with Chan and Milne (1999), who found that environmental disclosures did not significantly influence investor behavior. However, this contrasts with findings from Friede et al. (2015), Broadstock et al. (2021), and Giese et al. (2019), who suggest that strong environmental performance attracts investors due to reduced regulatory risks and better long-term stability. For individual investors, environmental factors had a negative impact, contradicting Ferrero-Ferrero et al. (2016), who found that environmental considerations significantly influenced individual investment decisions. On the other hand, institutional investors showed a positive, albeit insignificant, impact, which is consistent with the growing emphasis on environmental sustainability highlighted by Alsayegh et al. (2020) and Park & Jang (2021). Despite the growing importance of ESG investments, as noted by Husnah et al. (2023) and Sultana et al. (2018), the results suggest that environmental factors do not yet significantly shape investment decisions in Nepal. The insignificance of environmental factors in this study may reflect regional and temporal differences compared to studies that report stronger impacts. Therefore, hypotheses H_{1a} and H_{1b}, which proposed a positive impact of environmental factors on investment decisions, are not supported. The differences in results could be attributed to regional and temporal variations in investor behavior, as well as differences in the development of ESG-related investment products and awareness in Nepal compared to more developed markets.

The study's results highlight the significant role of social factors on investment decisions, with both individual and institutional investors being strongly influenced by these factors. This finding aligns with the work of Sultana et al. (2018) and Huang (2018), which emphasize the growing importance of ethical business practices, such as fair labor standards and community engagement, in shaping investment choices. Individual investors, in particular, are drawn to companies demonstrating social responsibility, echoing findings by Amel-Zadeh and Serafeim (2018) and Xie et al. (2019), which highlight that social factors significantly impact individual investors' preferences. For institutional investors, social factors play a crucial role in managing reputational risks and ensuring long-term sustainability, which is consistent with the research of Rounok et al. (2023) and Park and Jang (2021). However, the results contradict Teoh and Shiu (1990), who found that social responsibility information did not significantly influence institutional investors. This discrepancy may stem from differences in study context, such as time and regional focus, suggesting that the importance of social factors in investment decisions has grown over

time. Thus, the findings support both hypotheses H_{2a} and H_{2b}, confirming the significant role of social factors in investment decisions for both individual and institutional investors. Governance factors, which focus on transparency, accountability, and ethical management, play a significant role in shaping investment decisions. Both individual and institutional investors were strongly influenced by these factors, with governance practices such as independent boards and transparent financial reporting enhancing investor trust. These results align with prior research by Keasey et al. (1998) and Li et al. (2020), which highlight the positive association between strong governance practices and firm valuation, making companies more attractive to investors. Similarly, the findings are consistent with Amel-Zadeh and Serafeim (2018), who emphasize that governance mechanisms play a crucial role in fostering investor confidence, particularly among individual investors. Institutional investors also recognize the significance of governance for managing financial and operational risks, as supported by Park and Jang (2021). Furthermore, this study aligns with Eccles et al. (2014) and Sultana et al. (2018), who highlight the increasing prioritization of governance factors in investment decision-making due to heightened regulatory expectations and ethical considerations. The consistency of these findings with previous studies suggests a broader shift towards corporate governance as a critical determinant in investment decisions. Hypotheses H_{3a} and H_{3b} are supported, confirming that governance factors significantly influence investment decision.

This study's findings align with the Theory of Planned Behavior (TPB) and Stakeholder Theory in explaining how ESG factors influence investment decisions. According to TPB (Ajzen, 1991), an individual's behavior is guided by intentions shaped by attitudes, subjective norms, and perceived behavioral control. In the context of ESG investing, the study's findings show that investors' positive attitudes toward social and governance factors significantly influence their investment decisions, supporting previous research by Renneboog et al. (2008) and Raut et al. (2018), which highlighted the role of investor attitudes and control perceptions in ESG decision-making. The strong impact of social and governance factors on both individual and institutional investors' decisions also aligns with TPB's assertion that societal influences and perceived control are critical in guiding sustainable investment behaviors, as shown by Gamel et al. (2022). Additionally, Stakeholder Theory (Freeman, 1984) emphasizes the importance of creating value for all stakeholders, which aligns with the study's finding that governance factors, which enhance transparency and reduce risks, play a critical role in attracting investors. The results reflect the notion that strong governance practices, including board independence and accountability, contribute to long-term sustainability and success, as noted by Zhu et al. (2024) and Huang (2022). Thus, both TPB and Stakeholder Theory provide a strong theoretical foundation for understanding how ESG factors, particularly social and governance considerations, shape investment decisions.

Conclusion

This study explores the influence of environmental, social, and governance (ESG) factors on investment decisions among individual and institutional investors of Nepal. The study finds that most investors are male, middle-aged, well-educated, and experienced with higher incomes, yet only a smaller portion actively integrate ESG factors into their investment decisions, highlighting the need for firms to cater to this demographic while promoting ESG awareness and adoption. The regression results reveal that social and governance factors

have a strong positive impact on investment choices, with social factors being the most significant driver for both groups. For individual investors, environmental factors show a negative and insignificant impact, suggesting that they may prioritize social and governance considerations over environmental ones. In contrast, institutional investors place more emphasis on environmental factors, though the impact remains statistically insignificant. This study highlights the critical role of social and governance dimensions in shaping investment behavior, particularly for institutional investors, while underscoring the relatively lower importance of environmental factors, especially for individual investors. These findings suggest that investment strategies should be tailored to align with the differing preferences of individual and institutional investors, with a stronger focus on social and governance aspects.

The findings of this study carry several important implications for investment firms, policymakers, and regulatory bodies. Brokerage firms should pay close attention to the demands of a younger, educated, and higher-income investor base by offering investment products that prioritize social and governance factors, which were found to have a strong influence on investment decisions. Environmental factors, while not as impactful for individual investors, may still offer potential for long-term institutional investment strategies. Policymakers, including SEBON and NRB, could play a significant role in promoting the integration of ESG factors into investment practices by introducing regulatory frameworks, tax incentives, or subsidies that encourage businesses to adopt sustainable practices. Investment firms, on the other hand, should focus on enhancing transparency around ESG practices by implementing ESG rating systems, disclosure guidelines, and comprehensive reporting standards, fostering trust and boosting investor confidence. Additionally, creating ESG-themed investment portfolios or funds that specifically target social and governance factors would address the growing demand for sustainable and responsible investment opportunities, particularly among institutional investors.

While this study provides valuable insights into the impact of ESG factors on investment decisions, several limitations should be acknowledged. First, the sample was drawn using convenience sampling, which may limit the representativeness of the findings and reduce their generalizability to the broader investor population. Additionally, the study's cross-sectional design restricts the ability to infer causal relationships between ESG factors and investment decisions, as the data represents a snapshot at one point in time. Furthermore, while the study considered a variety of demographic variables, other factors such as investors' psychological biases, financial literacy, and risk appetite were not included, which could offer deeper insights into investment behavior. Lastly, the research relies on self-reported data, which introduces the possibility of response biases, such as social desirability bias, potentially affecting the accuracy of participants' responses.

Future research on the impact of ESG factors on investment decisions should aim to expand the sample size and geographic scope to include a more diverse range of investors across different regions of Nepal. Additionally, incorporating factors such as investors' experience and income levels could provide further insights into how these variables interact with ESG considerations and influence decision-making. Longitudinal studies would also be valuable in examining how attitudes towards ESG factors evolve over time, especially as

sustainability issues become more prominent in the investment landscape. Lastly, exploring the performance and appeal of ESG-themed investment products could offer a deeper understanding of their effectiveness in aligning with investors' financial goals and long-term value creation.

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