

Beyond awareness: How perceived benefits, risk and trust shape Indian investors' preference and intention toward green investments

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Abstract

Sustainable finance has expanded rapidly in India, yet retail uptake of green investments remains uneven, and little is known about the behavioural factors that shape preference for green over conventional options. This study examines how awareness, perceived benefits, perceived risk and trust influence investment preference, and how that preference translates into behavioural intention to invest in green financial products. Drawing on behavioural finance and ESG literature, a structured questionnaire was administered online to a convenience sample of 250 individual investors, and the proposed model was tested using partial least squares structural equation modelling in SmartPLS. The measurement model met reliability and validity criteria, and model fit was acceptable (SRMR of 0.062 for the saturated model and 0.074 for the estimated model). Perceived benefits ($\beta = 0.329$) and trust ($\beta = 0.269$) increased investment preference, while perceived risk reduced it ($\beta = 0.244$, negative). Awareness had no significant direct effect ($\beta = 0.107$, $p = 0.128$). Investment preference strongly predicted behavioural intention ($\beta = 0.624$), consistent with a mediating role for preference, and the model explained 40.8% of the variance in preference and 38.7% in intention. The findings indicate that knowing about green investments is not enough, and that perceived value, credible ESG disclosure and lower perceived risk matter more. The study adds evidence from an emerging market to behavioural finance and sustainable investing research and offers guidance for policymakers, financial institutions and ESG practitioners.

Keywords: Green Investment, Sustainable Finance, ESG Investing, Investor Perception, Behavioural Finance, Perceived Risk, Investor Trust, Investment Preference, Behavioural Intention, Partial Least Squares, India

JEL Classification: G41, G11, G40

1. Introduction

The emphasis on sustainability globally has dramatically changed the nature of financial markets, causing sustainable investing and the integration of Environmental, Social and Governance (ESG) factors into investment decision making to become significant. ESG investing refers to the inclusion of ESG factors into investment decision-making processes for the purpose of providing a broader base than the traditional profit maximization focusses of investment decision-making (Boffo & Patalano, 2020; Friede, Busch, & Bassen, 2015). During the last decade, sustainable investing has developed from a niche ethical practice to an extensive financial strategy across all asset classes with a focus on addressing increasing concerns regarding climate change, corporate accountability and long-term value creation (Amel-Zadeh & Serafeim, 2018; Berg, Kölbel, & Rigobon, 2022). The number of ESG-based investments made worldwide has increased substantially over the past decade. With increasing numbers of both institutional and retail investors integrating ESG based considerations into portfolio decisions. This trend is being fostered through regulatory frameworks globally and within emerging market economies such as India. For example, India's Securities Exchange Board of India (SEBI) introduced mandatory disclosure requirements for listed companies' ESG practices, and the first Green Bonds were issued in India (Sinha & Sharma, 2022). These developments reinforce the importance of ensuring that the financial system is aligned with sustainability objectives. However, despite this growth in sustainable investments in emerging markets, there continues to be variability in the extent to which these types of investments are adopted. As well as being driven by structural issues such as the lack of standardized reporting mechanisms for ESG data, there are also behavioural issues that inhibit investor confidence. Issues such as a lack of transparency in ESG reporting, informational asymmetry and the concern of "green washing" can negatively affect investor confidence. Additionally, investors may experience uncertainty with respect to the financial performance and/or risk/return profile of green investments which will further impact investor decision behaviour (Krueger, Sautner, & Starks, 2020). Behavioural Finance views investment decision making not just from a rational economics viewpoint but also through the lens of psychology and cognition. Specifically, factors such as perceptions, trust and risk assessments (Kahneman & Tversky, 1979; Barberis & Thaler, 2003), and concepts such as perceived benefits, perceived risk, trust and awareness (Riedl & Smeets, 2017; Gutsche, Köbrich Leon, & Ziegler, 2021) contribute to investor preferences when considering sustainable investing. While there appears to be greater awareness among potential investors concerning sustainable investing options, this awareness does not always result in tangible changes to investor behaviour suggesting a disconnect between knowledge and action. Given the diverse range of investor profiles and the variable levels of financial literacy found in India, it would appear to be beneficial to understand the perceptions towards green investments versus conventional investments. Recent research indicates that ESG factors are having an increasing effect upon investment decision making in India, however

behavioural barriers remain (Jain et al., 2019; Kumar et al., 2023). Accordingly, there exists a need to analyse the behavioural drivers of sustainable investment decision making in emerging markets.

Taking these perspectives into account, the primary objective of this study was to examine whether or not awareness, perceived benefit, perceived risk and trust contribute to differences in investment preference and behavioural intent towards green investments in India. A PLS-SEM methodology was used to address this objective. Consequently, the findings of this study will provide contributions to the rapidly expanding body of literature concerned with sustainable finance and behavioural investment decision-making.

2. Literature Review

2.1 Sustainable Investing and ESG Framework

Sustainable investing is growing in popularity as investors are beginning to use ESG factors when making financial decisions. Sustainable investing, or ESG investing, gives an investor a tool to evaluate a corporation's performance using criteria outside of just financial. Using these tools will help an investor to understand how well a corporation performs on sustainability, socially, and environmentally over time. Research also indicates that integrating ESG into a portfolio will increase returns and decrease the amount of money lost if one of your investments goes poorly (Fatemi, Glaum, & Kaiser, 2018; Friede et al., 2015). As sustainable finance continues to grow so do the number of green financial instruments such as green bonds, ESG mutual funds, and sustainability-linked loans (Flammer, 2021). Regulatory efforts and increasing awareness among investors in India have also aided in the growth of ESG investments within the country (Sinha & Sharma, 2022). The continued growth of ESG investments however will be impacted by two major issues. First, there is currently no consistency in ESG ratings. Second, there is currently a lack of transparency from corporations regarding their ESG information (Berg et al., 2022).

2.2 Behavioural Finance and Investor Decision-Making

Behavioural Finance is able to provide an insight into the degree to which psychological influences affect investor decisions. Behavioural Finance differs from standard financial theory in that it recognizes that investors are subject to psychological bias's and heuristics in addition to emotional influences (Barberis & Thaler, 2003), whereas traditional financial theory assumes that investors behave rationally (Kahneman & Tversky, 1979). In the context of sustainable investments, investor decision-making is also influenced by their ethical stance and social norms as well as their personal values (Riedl & Smeets, 2017). Research has shown behavioural influences on the ESG investing process have been critical in developing and adopting green investments in many Emerging Markets. Increasingly, investors are motivated by both financial returns and non-financial objectives including environmental sustainability and socially responsible activities (Gutsche et al., 2021).

2.3 Perceived Benefits and Sustainable Investment Behaviour

Green investments may have perceived advantages to which investors give preference. As such, investors who find themselves economically, environmentally, socially or otherwise better off will be more willing to make an investment into sustainable assets. Research has demonstrated that ESG investing leads to long term profitability, improved portfolio risk management as well as improved corporate reputation (Friede et al. 2015). As a result, the increasing number of investors is also beginning to realize the dual benefits from making sustainable investments. Sustainable investments provide competitive returns on their own while at the same time contribute to improving societal welfare. In light of these dual benefits, investors continue to grow their preferences for green investments.

2.4 Perceived Risk and Investment Decisions

Perceived risk is a significant variable in investors' decision-making processes when it comes to investing in environmentally friendly options. Many sustainable investors see their investments as having greater risk than traditional or non-sustainable investments because there is less certainty about what will be returned on their investment. There are also fewer examples of sustainable investments with known historical results, and many regulatory bodies have ambiguous definitions of sustainable investments (Krueger et al., 2020), which adds to the risk perception for potential investors. Behavioural finance theory explains how perceived risk influences an investor's preference for different types of investments. The perceived risk associated with sustainable investments may influence an investor's preference for these investments more so than the actual objective risk of a particular investment. The perceived risk in emerging markets such as India is increased due to informational asymmetry in addition to limited knowledge among consumers of environmental, social and governance (ESG) investment products.

2.5 Trust and ESG Investment Adoption

Trust has an important influence on how investors behave with respect to sustainable investments. Investor trust is affected by both the credibility of ESG disclosure, and their belief in the ability of regulatory frameworks and corporate governance practices to support investor confidence (Gillan et al. 2021). Each empirical evidence indicates that a level of trust in the ESG rating and reporting mechanism enhances investment decision-making through reduction of uncertainty and increase in perceived reliability. However, concerns regarding "greenwashing" and inconsistencies in ESG reporting will reduce investor trust and limit the potential for adoption of green investments. Therefore, improving transparency and accountability are essential in increasing sustainable investment behaviour. End of Text

2.6 Research Gap

Although research into Sustainable Investing (SI) has grown dramatically, some important knowledge gaps still exist. The first gap exists because the majority of research related to SI is

focused in Developed Markets, with very little empirical data collected from Emerging Economies, including India. A second gap in the existing body of literature involves understanding how behavioural constructs (such as Perceived Benefits, Risk, Trust etc.) can influence an investor's choice among investments. A third gap exists due to the fact that few researchers have built or tested complete Integrated Models which examine the relationship between Awareness, Perception, and Behavioural Intention for ESG Investing. To help address these gaps, this study will develop and test a Comprehensive Behavioural Model to identify factors that influence an individual's decision to invest sustainably in India. Through the integration of ESG and Behavioural Finance Perspectives, this study will contribute new insights to both the Theory and Empirical Literature in each area.

3. Research Methodology

This study adopts a quantitative research design to examine the behavioural determinants of investor preference and intention toward green investments in India. The research framework is grounded in behavioural finance theory and ESG investment literature, and it employs Partial Least Squares Structural Equation Modelling (PLS-SEM) to test the proposed relationships among constructs.

3.1 Research Design and Approach

The current study uses a cross-sectional survey design with primary data collection from an original questionnaire. It aims at assessing how awareness, perceived benefits, perceived risk, and trust affect preferences for investing and behavioural intentions towards green investments. As such the study has an explorative character of behavioural constructs as well as a predictive direction of analysis; therefore PLS-SEM appears suitable to this task because it has been proven to be very effective with complex models and smaller sample sizes than most SEM techniques (Hair et al., 2022)

3.2 Data Collection and Sampling

Primary data collection involved distributing a standardized survey instrument via social media sites. The subject group consisted of individual investors such as full-time employees; entrepreneurs; college students; and individuals that are actively engaged in trading on financial markets or have some level of investment experience. Given the purpose of this research is primarily exploratory in nature, along with the ease of access provided by online mediums, a non-probability sampling method called convenience sampling was selected. In addition to its availability, it has been recommended as an appropriate method for use when collecting primary data in studies utilizing PLS-SEM. A total of 250 responses were received and utilized within the research for purposes of data analysis. This number exceeds the minimum number required based upon the "ten times rule" (Hair et al., 2022) and other recently developed methodological recommendations.

3.3 Measurement of Constructs

The constructs used in the study were adapted from established literature and modified to suit the context of green investments. All items were measured using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

- Awareness of Green Investments (AGI): measures the level of knowledge and familiarity with ESG and sustainable financial products.
- Perceived Benefits of Green Investments (PBGI): captures the extent to which investors perceive economic, environmental, and social advantages of green investments.
- Perceived Risk (PR): reflects the uncertainty and perceived financial risk associated with green investments.
- Trust in Green Investments (TGI): evaluates the confidence in ESG disclosures, regulatory frameworks, and corporate sustainability practices.
- Investment Preference (IP): represents the inclination of investors toward choosing green investments over conventional alternatives.
- Behavioural Intention (BI): measures the likelihood of future investment in green financial products.

All constructs were modelled as reflective constructs, consistent with prior research in behavioural finance and ESG investment studies.

3.4 Model Specification

The conceptual model proposes that awareness, perceived benefits, perceived risk, and trust influence investment preference, which in turn affects behavioural intention. Additionally, direct effects of awareness and trust on behavioural intention are included to capture partial mediation effects.

The structural relationships can be expressed as follows:

- $IP = \beta_1 AGI + \beta_2 PBGI + \beta_3 PR + \beta_4 TGI + \varepsilon_1$
- $BI = \beta_5 IP + \beta_6 AGI + \beta_7 TGI + \varepsilon_2$

where β represents path coefficients and ε denotes error terms.

3.5 Data Analysis Technique

The data were analysed using SmartPLS software. The analysis followed a two-step approach:

1. **Measurement Model Evaluation:** Reliability and validity were assessed using Cronbach's alpha, composite reliability, AVE, and HTMT ratio.

2. **Structural Model Evaluation:** The structural relationships were tested using bootstrapping (5,000 resamples) to assess the significance of path coefficients. The model's explanatory power was evaluated using R^2 values, and predictive relevance was assessed through Q^2 where applicable.

Model fit was evaluated using the Standardized Root Mean Square Residual (SRMR), with values below 0.08 indicating acceptable fit.

3.6 Ethical Considerations

Participation in the study was voluntary, and respondents were assured of confidentiality and anonymity. No personal identifying information was collected, and the data were used solely for academic research purposes.

4. Results and Discussion

The present study employs Partial Least Squares Structural Equation Modelling (PLS-SEM) to examine the determinants of investor preference and behavioural intention towards green investments in the Indian context. The analysis follows a two-step approach involving the assessment of the measurement model and the structural model.

4.1 Measurement Model Assessment

Cronbach's Alpha, Average Variance Explained (AVE), and Heterotrait-Monotrait Ratio (HTMR) were used to assess the construct reliability and validity. Internal Consistency Reliability Analysis. All constructs demonstrated satisfactory internal consistency as indicated by Cronbach's alpha. All constructs had alpha coefficients above 0.7 specifically, awareness of green investments (.87) and perceived risk (.88) showed high internal consistency, while behavioural intention (0.71), investment preference (0.71), perceived benefits of green investments (0.72), and trust in green investments (0.72) met the acceptable reliability criteria. This indicates that each set of measurement items consistently represented their respective latent constructs. Convergent Validity. Average Variance Explained (AVE). Results confirmed that all constructs exceeded the threshold of 0.5 on average explained variance. Constructs ranged from 0.53 to 0.73 with respect to average explained variance. Awareness of green investments (0.72) and perceived risk (0.72) exhibited particularly strong convergent validity; behavioural intention (0.53) and investment preference (0.52) satisfied minimum acceptable thresholds. Thus, these results supported the conclusion that the indicators sufficiently converged to measure their intended constructs.

Discriminant Validity was examined using Heterotrait Monotrait Ratio (HTMR). Values of all HTMR ratios were found to be less than 0.9, thus providing evidence that constructs were empirically distinct. Although there was some relatedness between investment preference and behavioural intention (HTMR = .86) this remained well below the threshold and represents a relationship rather than redundancy.

4.2 Structural Model Assessment

The structural model was tested through bootstrap techniques to assess the statistical significance of the path coefficients, to determine the predictive ability of the model, and to provide an assessment of the general fit of the model. Bootstrapped estimates show that Perceived Benefits of Green Investments has a statistically significant positive relationship with Investment Preferences ($\beta = .329$; $t = 5.607$; $p < .001$), indicating that investors tend to favour green investments based upon their perceptions of greater environmental, social, and economic benefits. Likewise, Trust in Green Investments has a statistically significant positive relationship with Investment Preferences ($\beta = .269$; $t = 3.812$; $p < .001$) indicating that investors' confidence in ESG disclosure and regulatory mechanisms influences investment preferences. Conversely, Perceived Risk has a statistically significant negative relationship with Investment Preferences ($\beta = -.244$; $t = 4.975$; $p < .001$), showing that as risk perception increases so does investors' aversion to investing in green investments. This supports behavioural finance theory by demonstrating how risk perception affects investors' choices. On the other hand, there is no statistically significant relationship between Awareness of Green Investments and Investment Preferences ($\beta = .107$; $t = 1.522$; $p = .128$). Therefore, it appears that simply being aware of green investment opportunities is insufficient to generate sufficient interest for investors to pursue such opportunities. Thus, further cognitive or emotional involvement with green investments is necessary before influencing investor behaviour. Additionally, the results demonstrate that Investment Preferences has a statistically significant positive relationship with Behavioural Intentions ($\beta = .624$; $t = 17.250$; $p < .001$), illustrating the important role that preference formation has in creating intentions for future actions regarding green financial product investment. Additionally, this illustrates the mediation function of investment preference in relationships between perceptual variables and behavioural outcomes.

Lastly, R^2 (Coefficient of Determination) measures were used to assess the predictive capability of the models. For the structural equation models developed here, approximately 40.8% of the variance in Investment Preferences and approximately 38.7% of the variance in Behavioural Intentions can be explained by the models. In many cases, these levels of explanation are deemed satisfactory for behavioral and sustainability studies. Further, both SRMR values (.062 for Saturated Models & .074 for Estimated Models) were less than the recommended cut-off value of .08, thereby providing evidence of adequate goodness-of-fit to the data and thus validating the proposed model.

4.3 Hypothesis Testing

The results of hypothesis testing indicate that most of the proposed relationships are supported, except for the link between awareness and investment preference. Perceived benefits, perceived risk, and trust significantly influence investment preference, while investment preference

significantly predicts behavioural intention. The findings confirm that cognitive and affective factors play a more critical role than mere awareness in shaping sustainable investment decisions.

4.4 Discussion

The results from this research highlight investor behaviour relative to sustainable finance in India. Awareness is insignificant; therefore, informational access is insufficient to guide investment decisions. Investors require a greater belief in the benefits of sustainable investments and trust in the systems to preferentially select green investments. Perceived benefit has a significant and positive influence on investors' preferences for sustainability-oriented investments, suggesting that increasingly investors view sustainable investments through the lens of creating both economic (financial) value and social/environmental value. Trust emerged as an equally important factor that reflects the necessity for transparent and credible ESG reporting and regulatory support to promote green investments. The negatively associated influence of perceived risk validates traditional financial theory that uncertainty/unknowing with regard to potential returns and performance continue to be major barriers to the adoption of green investment strategies. Therefore, there exists a need for regulators and financial institutions to minimize perceived risk by providing better disclosure, implementing risk management tools and providing investor education programs. Lastly, the very large association between investment preference and behavioural intention demonstrates that preference development is a key stage in the investment decision making process. This finding validates the theoretical underpinning that behavioural intention is developed based on evaluations of alternatives that were formed based on cognitive and affective assessments. In general, the research indicates that sustainable investment in India will occur primarily based on perceived value and trust rather than just awareness, thus highlighting a need for a holistic strategy to encourage ESG investment.

5. Mediation Analysis

The mediation effect of Investment Preference (IP) on the link between perceptual variables and Behavioural Intention (BI) was analysed. The results demonstrate that Investment Preference acts as an important mediator variable to bridge the gaps between main predictor variables and BI regarding Green Investments. Investor preference has been found to be influenced by two primary predictors: Perceived Benefits (PBGI) and Trust (TGI). Both PBGI and TGI have an indirect influence on BI via Investor Preference. This strong and positive relationship between Investor Preference and BI ($\beta = 0.624$, $p < .001$) indicates that investor preference is a major channel for how cognitive/affective information translates into future behavioural intentions to invest. Although Awareness (AGI) did not directly impact investor preference it is possible that AGI could exert an indirect effect on investor preference through one or more of the perceptual constructs (i.e., perceived benefits, trust). Therefore, there is the possibility for another indirect pathway from AGI to BI. The results confirm that all perceptual drivers are completely mediated through investment preference to form BI.

6. Conclusion, Implications, and Future Research Directions

This research identifies empirically those factors influencing how investors react to Green Investments within India. It was found that the primary factors for investors making an investment decision were the perceived benefit from the investment, the investor's level of trust in their potential returns, and the investor's perception of the investment risks involved; and not simply being aware of what is available.

Although awareness has been seen as a necessary condition for sustainable investing, these results show that awareness itself will have no direct effect on where an investor would prefer to invest. Therefore, there is a need for greater cognitive engagement from investors. Investment preference was identified as an additional determining factor for behavioural intention and therefore confirms its position as a mediating variable in the decision-making process. Also, as determined in this research, the positive effects of the perceptions of benefits and trust indicate that investors' desire to invest in Green Investing is influenced by both creating value through their investment choices, and by having faith that ESG frameworks can provide them with confidence in the sustainability of such investments. On the other hand, the negative effects of the perception of risk indicate the barriers presented by uncertainty and the lack of transparency in Green Investments. In summary, this research contributes to the rapidly increasing amount of literature on sustainable finance (the way in which investors choose to engage with green investments) by showing that investor behaviour in emerging markets is significantly influenced more so by the perception-based factors and less so by just awareness. As well, the findings of this research emphasize the importance of establishing stronger ESG systems to support investor confidence and ultimately support the growth of green investments.

6.1 Policy Implications

The results from the research provide several implications for policy-makers that will assist in promoting sustainable financing within India. Firstly, the credibility and transparency of Environmental Social Governance (ESG) disclosures need to be enhanced through stronger regulatory requirements so that investor confidence increases. Secondly, policy makers need to introduce mechanisms which reduce the risks associated with "green" investments through instruments like government backed guarantees or "green" bonds with guaranteed interest payments or tax incentives. The latter could increase participation among conservative investors in environmentally friendly investment products. Thirdly, awareness raising activities about "green" investing need to go beyond mere informational efforts to emphasize both the financial and environmental advantages of "green" investments.

6.2 Managerial Implications

From an operational standpoint, financial institutions, and asset managers need to highlight the value proposition of "green" investments via transparent communication of both financial returns



(long term) and sustainable development outcomes. The marketing for such investments needs to create trust using transparent Environmental, Social & Governance ("ESG") rating systems, valid certification processes from independent third parties, as well as other forms of validation. In addition, various types of new green-based financial products will need to be created by investment houses that meet the requirements of different market segments of investors who have varying degrees of risk tolerance and investment experience. Clear communications regarding the expected risk/return profile and benchmarked performance data of these products should further reduce the perceived risk associated with investing in green-based assets and increase investor confidence. Finally, new technologies and innovation provided by digital platforms and Fintech can assist in increasing awareness and access to green-based investment opportunities so that a larger number of retail investors may invest in green-based assets.

6.3 Contribution to Literature

The results of this study make three important contributions to knowledge. Firstly, they expand on behavioural finance by linking ESG related issues with existing theoretical models for investment decisions. Secondly, this is one of the first times that a mediator (investment preference) has been identified in studies examining how investors behave. Lastly, the findings are based on data from an emerging market and therefore address a significant omission in research literature regarding sustainable finance.

6.4 Future Research Directions

In addition to enhancing the model through inclusion of other variables such as: Financial literacy; Social influences; Regulatory awareness future research could include longitudinal studies to determine if there have been changes in investor behaviour over time. Comparative studies of both developed and emerging markets would add depth to understanding global trends in sustainable investing.

Appendix A: Measurement Instrument

All items were measured using a **5-point Likert scale**

(1 = *Strongly Disagree*, 5 = *Strongly Agree*)

Awareness of Green Investments (AGI)

AGI1: I have knowledge of what it means for an investment to be "green" or "sustainable".

AGI2: I comprehend ESG (environmental-social-governance) criteria.

AGI3: I am knowledgeable regarding green financial products.

AGI4: I research and find out about sustainable investments.

Benefits of Green Investments Perceived (PBGI)

PBGI1: Green investments create environmentally sustainable practices.

PBGI2: Green investments support socially responsible investing practices.

PBGI3: Green investments generate greater returns over time financially compared to non-green investments.

PBGI4: Green investments are consistent with my personal values.

Risk Associated with Green Investments (PR)

PR1: The risks associated with green investments exceed those associated with traditional investments.

PR2: Green investments carry a great deal of uncertainty.

PR3: Return on green investments can be unpredictable.

PR4: Traditional investments offer fewer risks than do green investments.

Trust in Green Investments (TGI)

TGI1: I believe that ESG disclosure and rating systems are reliable.

TGI2: I consider claims made by companies about their "green" credentials as being believable.

TGI3: I believe regulatory agencies adequately enforce transparency requirements.

TGI4: I have confidence when making a decision to invest in green assets.

Preference of Investment (IP)

IP1: I prefer to make green investments versus traditional investments.

IP2: I am willing to make investments in green assets.

IP3: My investment decisions are influenced by the level of sustainability of a particular asset class.

IP4: I would advise others to make green investments.

Intention of Behaviour (BI)

BI1: I plan to purchase green financial products.

BI2: I intend to allocate more funds into green investments.

BI3: I am willing to give priority to the degree of sustainability in the various types of

investments available.

BI4: I intend to investigate potential ESG investment opportunities.

Appendix B: Structural Model Specification

$$IP = \beta_1 AGI + \beta_2 PBGI + \beta_3 PR + \beta_4 TGI + \varepsilon_1$$
$$BI = \beta_5 IP + \beta_6 AGI + \beta_7 TGI + \varepsilon_2$$

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