

CHAPTER 12

A Study on Investor Behaviour towards Green Investments

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ABSTRACT

This study examines retail investor awareness and behavior toward green investments to identify adoption drivers and evaluate the impact of green labels. Adopting a descriptive and analytical design, the research utilizes primary data from 50 retail investors selected via convenience sampling, alongside secondary data. Statistical tools, including correlation and mean score analysis, assessed the relationship between behavioral factors—such as environmental concern and trust—and investment adoption. The findings indicated that while interest in green investments was rising, investor awareness remained moderate. Behavioral factors and credible green labelling significantly influenced investment decisions. The study concludes that improved transparency and awareness were essential to fostering long-term economic and environmental sustainability.

Keywords: Green investments, Retail investors, Behavioural finance, Green labelling, Sustainable investing.

1.0 Introduction

The financial system of the world is changing as it is developing, and the main driver of this change is the drive towards a sustainable and low-carbon economy. Thus, as the financial system is developing, green investing is no longer just an ethical niche option, and today green investments are mainstream and include green bonds, sustainable stock funds, and sustainable mutual funds. Although the sustainable finance market has traditionally been dominated by institutional capital, the rapid democratization of financial technology has enabled the retail investor to emerge as another key stakeholder. Despite the exponential growth in the number and types of Environmental, Social, and Governance (ESG) financial instruments, the retail investor's participation in the sustainable finance market is grounded in an extremely intricate behavioural and psychological landscape.

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In fact, the cognitive process through which financial resources are channelled into green financial assets is rarely grounded in purely economic reasoning and is heavily moderated by an array of psychological factors, fluid social factors, and overarching perceptions of credibility in relation to the financial instruments at hand. It appears that there is a disconnect between what people claim to believe about the environment and what they actually do. While surveys have shown that people do believe in the environment and prefer to invest in “green” investments, the reality of their investment behaviour shows a disconnect from what they claim to believe. This disconnect prompts a need to explore what influences or inhibits retail investors from engaging in sustainable investment. Furthermore, with the rise of “green washing” becoming a reality, it makes it even more important to investigate what influences investors to think about investment returns in a certain way. Therefore, it can be argued that it is important to understand retail investors’ attitude towards “green investment returns.” This study aims to investigate investors’ awareness of “green investments” in relation to economic and environmental sustainability.

2.0 Literature Review

Current scholarly research (2023-2025) indicates that sustainable finance is an evolving field. It is defined by detailed human behaviour, moving population demographics, and complete systematic risks, all of which are important to addressing challenges around corporate trust and misleading greenwashing.

When it comes to sustainable investment, how people feel and think inside is especially important. Brooks and Williams (2025) found that many people think climate change is a “distant” problem that does not affect them right now. This feeling is the major reason why they might choose to join-or -avoid Socially Responsible Investing (SRI). The emotional factor associated with sustainable investment is reinforced by Gutsche et al. (2023), who revealed that the “warm glow” associated with sustainable investment is a significantly stronger predictor than financial literacy. From a demographic perspective, it has been revealed by Morgan Stanley (2024) that 97% of Millennials are interested in sustainable investment. However, a significant decline in ESG support has been revealed by Larcker et al. (2023) within the younger investor segment, owing to unfavourable economic conditions that require a wealth preservation strategy. Furthermore, it has been revealed by Gala et al. (2024) that gender is a subtle determinant of sustainable investment, with higher awareness of ESG-related terms associated with male investors, while females manifest a latent preference to achieve sustainable outcomes.

Market Dynamics and Greenium: The financial benefits enjoyed by green instruments have been at the core of current research. Tu et al. (2024) describe the so-called “Nordic Alpha,” which states that ESG funds in Scandinavian countries enjoy higher

financial performance, which is attributed to their mature regulatory systems. In contrast, Biju et al. (2024) describe emerging market conditions, where large and profitable firms with diverse boards have been the major issuers of corporate green bonds. However, there have been some issues regarding macroeconomic transition, as Yue and Nedopil (2025) state that, despite China's development of green credit, transition finance, which is the shift from coal to green energy, is still an issue faced by China. Reddy (2024) has analyzed the market conditions in India, which state that there is considerable interest in green bonds, but retail awareness is lacking, which is due to market standardization deficiencies. Debrah et al. (2023) have extended this literature by describing the lack of an agency-theoretic approach that can bridge the gap between private investors and green developers.

Information Processing and Greenwashing: The processing of information, along with the perception of trust, is a key component of this domain. Bongini et al. (2025) identify human financial advisors as a key component of this system, concluding that the explicit recommendation provided by the advisor was the strongest predictor of the inclusion of ESG considerations by the investor. In another study, Li et al. (2023) observe that investors are particularly sensitive to ESG-related news when financial materiality is high, rather than being driven by ethical value considerations. Nevertheless, a key challenge to the system is the process of “greenwashing,” which was experimentally demonstrated by Fella (2023) to result in higher perceptions of greenwashing, leading to a decrease in trust. At the institutional level, Gibson Brandon et al. (2024) observe that signing the Principles for Responsible Investment is used as a risk mitigation strategy, despite a lack of improvement in ESG scores at the portfolio level. Another key component of this system, used by private equity firms, is the use of ESG frameworks to appease limited partners, while also using it to inflate valuation multiples prior to an exit, as demonstrated by Yi et al. (2023). There is a need to be cautious about the use of “digital nudging,” as demonstrated by Glazer et al. (2023), who observe that nudging can have a boomerang effect in domains such as beauty, where choice is perceived as threatening.

3.0 Research Methodology

The main objectives of this study are to assess the level of awareness of retail investors about green investment products, and to identify the behavioural determinants that affect the adoption of green investments. Moreover, it is vital to assess whether the existence of ‘green’ labels has an impact on investors’ decision-making process regarding their investments. In order to fulfil the research aims, a descriptive and analytical research design has been employed. To collect primary data, a structured digital questionnaire survey has been conducted among retail investors. In this study, multiple-choice questions, familiarity matrices, and Likert scales ranging from 1: Strongly Disagree to 5: Strongly

Agree have been used to examine respondents' subjective attitudes and behaviours. The study population will consist of retail investors who are actively engaged in investing in the financial markets. For this study, a sample of 50 retail investors will be used. For the purpose of primary data collection, a non-probability sampling method called convenience sampling will be used.

The study focuses on the heuristics, risks, and information-related issues pertinent to the retail segment. It assesses the intrinsic levels of environmental concerns in relation to the rational expectation of financial returns. Furthermore, it examines the efficacy of certification schemes in addressing the trust issues in the market.

The study recognizes that it has several limitations. First, the empirical study is based on 50 respondents, which may limit the study's generalization to the larger population of retail investors. Secondly, the use of convenience sampling created a demographic bias towards the younger population, as the respondents consisted of either Millennials or members of Generation Z. This study did not cover the behaviours of the elderly, such as members of Generation X or Baby Boomers. Finally, the use of self-reported measures is often prone to several biases, as the study is based on the respondents' self-assessment of their knowledge of finance or their intention to behave in a certain way in the future.

4.0 Discussion and Data Analysis

Approximately 80% of the population within the sample are young, belonging to the Z and Millennial generations. The sampling was strategic since an increased number of young people are investing at an early age, aided by the availability of digital apps that are easily accessible. The population also has an equal number of both males and females. The equal distribution was strategic in eliminating bias and proving that old ideas of investing are relevant today. Notably, nearly half of the population interviewed are young investors who have less than a year of investing experience.

The study reveals that the majority of the general public who are into investing know extraordinarily little about green investing. Around 80% know the basic idea, but only half of those know the details. If you rate their knowledge from 1 to 5, the majority are at the lower end, from having a vague idea to being just familiar. The general public know the most about ESG mutual funds because big investment firms advertise these quite often. The general public know extraordinarily little about social impact bonds. The general public are not experts on where to put their money, so they tend to use shortcuts, pictures, and opinions. A theory called VBN is used to understand what emotions and values drive people to invest in sustainable ways. People's responses are scored from 1 to 5.

Table 1: Demographic Profile of Respondents

Demographic Variable	Category	Percentage of Sample
Age Group	18 – 25 years (Gen Z)	50%
	26 – 40 years (Millennials)	30%
	41 – 55 years (Gen X)	15%
	56 – 70 years (Boomers)	5%
Gender Identity	Female	50%
	Male	50%
Monthly Income Level	Below ₹20,000	45%
	₹20,001 – ₹40,000	15%
	₹40,001 – ₹60,000	20%
	Above ₹60,000	20%
Investment Experience	Novice (Less than 1 year)	48%
	Intermediate (1–5 years)	35%
	Experienced (5–10 years)	6%
	Expert (More than 10 years)	11%

Source: Survey Data

Table 2: Knowledge and Familiarity Matrices

Construct	Metric / Category	Result
Subjective Awareness	Unaware (Never heard terms)	20%
	Basic (Heard terms, lack details)	45%
	Moderate (Understand basic concepts)	25%
	Advanced (Clear understanding)	10%
Product Familiarity (Mean)	ESG Mutual Funds	2.6 / 5.0
	Green Bonds	2.4 / 5.0
	Renewable Energy ETFs	2.4 / 5.0
	Green Fixed Deposits	2.2 / 5.0
	Social Impact Bonds	1.9 / 5.0

Source: Survey Data

Table 3: Environmental Concern and Ethical Values (Mean Scores)

VBN Statement	Mean Score (1-5)	Interpretation
Deeply concerned about effects of climate change	4.6	Severe environmental anxiety
Personal moral obligation to not support harm	4.0	High normative duty
Ethical values are just as important as financial returns	3.9	Strong value alignment
Investing green gives personal satisfaction (Warm Glow)	3.8	Tangible emotional reward

Source: Survey Data

These people care about their future and the environment. They give it a rating of 4.6 out of 5. They feel responsible for not spending their money on things that will harm the environment. At the same time, they feel good when they invest in green things, which they refer to as a “worm grow” (3.8). This indicates that going green is good for their money and that it feels good to do it.

Table 4: Risk and Return Trade-offs (Mean Scores)

Construct	Statement	Mean Score (1-5)
Perceived Risk	Companies ignoring env. issues face higher long-term risk	3.7
	Green investments are riskier/more volatile than traditional	3.2
	Worry that green technologies are unproven/prone to failure	2.3
Financial Returns	Sustainability indicates long-term management quality	3.8
	Expect green investments to outperform over next 10 years	3.6
	Willing to accept lower return if it contributes to sustainability	2.8

Source: Survey Data

The result show that young investors are highly intelligent about identifying risks. Most agree that companies ignoring environmental and social rules are dangerous for the market in long run. They also strongly disagree with the old idea that green technology is risky and likely to fail. Instead, they believe that companies focus on sustainability are well-run and more dependable. The final limit on how people act is based on the profit they expect to make. On average, investors are not willing to lose money just to be green. With score of 2.8, most people want their ethical investments to pay just as well as the normal ones, rather than accepting lower return. In a forced-r probabilistic ranking of investment priorities within a trade-off framework, Financial Returns (ROI) dominate as the primary investment priority, while Environmental Impact is always relegated to second or third place by the majority of the sample. The implication is evident: while retail investors display a strong preference for ‘green assets,’ they are not willing to cross-subsidize the macroeconomic transition to a lower level of financial return, demanding competitive financial returns that are commensurate with environmental impact.

Table 5: Labelling Utility and Trust Mechanics (Mean Scores)

Statement	Mean Score (1-5)
Green labels make it significantly easier to find aligned investments	3.8
A recognised “Green Label” makes me more likely to consider a product	3.6
I prefer labels verified by independent government bodies	3.7
I am concerned that “green” products are just marketing gimmicks	3.6
I trust the environmental claims made by investment funds	3.2

Source: Survey Data

The data shows that people do not trust the market at the moment. The score for trusting the market is at 3.6, and that's because people are afraid of being tricked into investing in something fake, like greenwashing. The score for trusting what the banks and funds say about being green is at 3.2. To feel safe, people need visuals at 3.8 and labels from the government or an outside group at 3.7. To feel safe enough to invest, people mostly chose statements like, "this fund saved 10 tons of CO2." They also chose something from an outside agency. People do not want promises anymore; they need facts and figures before investing their money.

5.0 Conclusion

This study suggests that green investing is about helping other people and trusting, and not about making money. The average investor in the financial market wants to help the environment. However, they are concerned about the lack of information and being deceived. On the other hand, the investor wants good profits and is not ready to lose money because they are right. The financial market has to stop being moralistic and be honest in order to encourage people to invest money in it. It has to be honest in order for the investor to trust the company. For the future of this research, it is suggested that more participants be considered to understand how the preferences of retail investors change and how they invest in different economic conditions. The other area of research is how well different regulations, like SEBI's BRSR Core, fill the information gap for retail investors in niche products like Sovereign Green Bonds.

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