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A STUDY ON EFFECTIVENESS OF ESG LINKED PRODUCTS IN SUSTAINABLE INVESTMENTS

***Mr. Sai Raghav S*[1]*, Dr. Vidhya S*[2]**

(Department of Commerce PG, Kristu Jayanti College Autonomous, Bengaluru-560077)

ABSTRACT :

Environmental, Social, and Governance (ESG) factors have gained significant importance in investment decision-making, influencing corporate strategies and investor preferences. This study examines the effectiveness of ESG-linked products in driving sustainable investments, focusing on their impact on financial performance and sustainability outcomes in Indian companies. By utilizing both primary and secondary data, the research assesses investor perceptions, corporate ESG commitments, and the financial viability of ESG-linked products such as green bonds, sustainability-linked loans, and ESG-focused mutual funds. The study also explores regulatory frameworks and market trends that shape ESG investment decisions. Findings are expected to highlight the extent to which ESG-linked financial instruments contribute to long-term sustainability performance while balancing profitability. The research aims to provide insights for policymakers, investors, and corporations seeking to integrate ESG considerations into their financial strategies effectively.

Keywords: ESG-linked products, sustainable investments, financial performance, sustainability performance, green bonds, sustainability-linked loans, ESG mutual funds, corporate ESG commitments, investor perception, regulatory frameworks, Indian companies.

INTRODUCTION :

In recent years, Environmental, Social, and Governance (ESG) considerations have become a critical factor in shaping investment decisions, influencing both institutional and individual investors. The growing awareness of sustainability issues, regulatory pressures, and stakeholder expectations has led to the emergence of ESG-linked financial products, such as green bonds, sustainability-linked loans, and ESG-focused mutual funds. These financial instruments aim to promote responsible investing by integrating ESG factors into investment strategies, ensuring that capital allocation supports long-term sustainability goals while maintaining financial viability.

The effectiveness of ESG-linked products in driving sustainable investments remains a topic of growing interest. Investors seek financial instruments that align with their ethical and environmental concerns without compromising returns. Meanwhile, corporations and financial institutions increasingly adopt ESG-linked financial products to demonstrate their commitment to sustainability and attract capital. However, the actual impact of these products on corporate sustainability performance and financial outcomes remains under scrutiny.

This study aims to assess the effectiveness of ESG-linked products in promoting sustainable investments, focusing on their role in improving financial performance and enhancing corporate sustainability in Indian companies. By leveraging both primary and secondary data sources, the research will analyse investor sentiment, corporate ESG commitments, and regulatory influences. The findings will provide insights into the extent to which ESG-linked products contribute to sustainable financial markets and whether they serve as a viable strategy for long-term value creation.

REVIEW OF LITERATURE :

Aggarwal, R., Sharma, P., & Verma, S. (2025) this study employs the PRISMA framework to review 386 articles published between 2011 and 2024, exploring the antecedents, decisions, and outcomes influencing ESG investments. The research integrates ESG investment components with the United Nations' Sustainable Development Goals (SDGs), offering a unique perspective on how these investments align with global sustainability objectives.

Singhania, Bhan, and Chadha (2024) this study applies bibliometric methods coupled with content analysis to review 1,022 articles from 1,991 to 2,023. It identifies seven major themes in sustainable investment literature, including financial performance, fiduciary duty, corporate social responsibility (CSR), ESG-based portfolio construction, sustainability assessment tools, investor behavior, and impact investing. The paper also highlights emerging research areas such as SDG financing via green bonds and social impact bonds, and governance-related determinants of firm-level sustainable investments.

Kalyani and Mondal (2024) this systematic literature review analyzes the evolving landscape of ESG disclosures and their effects on firms' financial performance. Reviewing 650 articles, the study suggests that ESG disclosures are positively associated with enhanced financial performance, fostering long-term value creation. However, it notes variations in the significance of these relationships across industries and regions.

Shah, Unny, and Shome (2024) this systematic literature review of 264 articles published in premier journals sheds light on publication trends, leading authors, journals, countries, and themes in contemporary socially conscious investment (SCI) research. The study identifies three key themes: performance of SCI, behavioural issues, and SCI development literature, and proposes a conceptual model for SCI.

Mdpi (2024) this review examines the integration of ESG factors into business models, discussing socially responsible investment, ESG integration, and firm sustainability. It highlights both the positive and negative impacts of ESG on firms' financial performance and value, and identifies challenges such as the trustworthiness of ESG data.

Gürsoy and Erbuğa (2024) this literature review investigates the impact of ESG scores on firm performance. It examines how ESG practices have evolved from a scoring system into a strategic tool critical to global sustainability. The study highlights that strong ESG performance enhances financial stability, attracts investments, and bolsters corporate resilience against external risks. However, challenges such as greenwashing, pillar disparities, and reporting harmonization gaps remain significant barriers.

RESEARCH GAP :

Despite the growing adoption of ESG-linked products, significant research gaps remain. Empirical evidence on their financial performance, particularly in India, is limited, with few studies assessing their impact on corporate profitability and investor returns. The effectiveness of ESG instruments in driving long-term sustainability also lacks thorough investigation. Investor perception, risk-return expectations, and decision-making factors remain underexplored. Additionally, the role of evolving ESG regulations in emerging markets is understudied. Challenges like ESG data inconsistency, greenwashing, and the lack of standardized evaluation frameworks further hinder impact assessment. This study aims to bridge these gaps by analysing the effectiveness of ESG-linked financial instruments in India.

OBJECTIVE :

To evaluate the effectiveness of ESG-linked products in promoting sustainable investments

HYPOTHESIS :

Null Hypothesis (H_0): ESG-linked products have no significant effect on promoting sustainable investments.

Alternative Hypothesis (H_1): ESG-linked products have a significant effect on promoting sustainable investments.

SCOPE OF STUDY :

This study evaluates the effectiveness of ESG-linked products in promoting sustainable investments, focusing on Indian companies and financial institutions. It examines industries such as banking, asset management, and corporate sectors issuing green bonds and sustainability-linked loans. The research covers ESG mutual funds, green bonds, ETFs, and other ESG-linked instruments over the past five to ten years. Key stakeholders include institutional and retail investors, corporations, and regulatory bodies like SEBI and RBI. Both primary (surveys, interviews) and secondary (financial reports, ESG disclosures) data sources will be used. The study assesses ESG investment growth, performance, investor perception, and regulatory impact. A comparative analysis with traditional investments will be conducted. It explores whether ESG-linked products genuinely promote sustainability or serve as marketing tools. Findings will provide insights into their real-world effectiveness. The study contributes to understanding ESG finance in India's investment landscape.

RESEARCH METHODOLOGY :

The study gathered primary data through a questionnaire targeting financial professionals and investors to assess their awareness and perceptions of ESG-linked products. Multiple Linear Regression analysis were used to evaluate investment trends, performance, and risk factors. The sample size is 100 and a purposive sampling technique was utilized.

DATA ANALYSIS :

MULTIPLE LINEAR REGRESSION (MLR)

Analysis illustrating relationships, significance, strength, and accuracy of variables.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.402	.162	.127	.8711

Tests group differences statistically.

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	13.919	4	3.480	4.586	.002
Model	**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
Residual	72.081	95	.759		
Total	86.000	99			

Analysis showing variable impact and significance.

Model	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	t	Sig.
(Constant)	.912	.338		2.694	.008
To what extent do you believe financial institutions prioritize initiatives that lead to long term environmental benefits	.070	.096	.075	.729	.468
How confident are you that socially responsible practices in financial institutions contribute to measurable performance improvements	.337	.105	.314	3.195	.002
Do you agree that businesses that provide incentives for sustainability encourage others to follow the same	.025	.104	.025	.242	.809
How strongly do you feel that focusing on governance-related incentives improves overall transparency and accountability in financial decision-making	.141	.100	.140	1.406	.163

INTERPRETATION :

The model summary table presents the overall fit of the regression model. The R-value (0.402) indicates a moderate positive correlation between the independent variables and the dependent variable. The R-square value of 0.162 suggests that the model explains approximately 16.2% of the variance in the perception of financial institutions investing in sustainability. The adjusted R-square value (0.127) accounts for the number of predictors in the model and indicates a slight reduction in explanatory power. The standard error of the estimate (0.8711) represents the average deviation of the observed values from the predicted values, suggesting some level of variability that is not explained by the model.

The ANOVA table assesses the overall statistical significance of the regression model. The F-statistic (4.586) and its corresponding significance value ($p = 0.002$) indicate that the model as a whole is statistically significant. This means that at least one of the independent variables significantly contributes to explaining variations in the perception of sustainable investments by financial institutions. The regression sum of squares (13.919) represents the variation explained by the predictors, while the residual sum of squares (72.081) accounts for unexplained variance, emphasizing that other factors beyond the selected predictors also influence perceptions.

The coefficients table provides insights into the individual contribution of each predictor variable. The constant ($B = 0.912$, $p = 0.008$) is statistically significant, indicating that even without the independent variables, there is a baseline perception of financial institutions investing in sustainability. Among the predictors, "7 How confident are you that socially responsible practices" ($B = 0.337$, $p = 0.002$) is statistically significant and has the highest impact, suggesting that greater confidence in socially responsible practices leads to stronger perceptions of sustainable investments. The other predictors, "6 To what extent do you believe financial institutions prioritize sustainability" ($p = 0.468$), "8 Do you think businesses that provide incentives for

sustainability" (p = 0.809), and "9 How strongly do you feel that focusing on governance is related" (p = 0.163), are not statistically significant, indicating that these factors do not independently have a strong influence on perceptions of sustainable investing in this model.

FINDINGS :

ESG-linked financial products significantly influence institutional perceptions of sustainable investments (p = 0.002). A moderate positive correlation (R = 0.402) suggests that institutions offering these products have a better view of sustainability. Confidence in socially responsible practices is the only significant predictor (B = 0.337, p = 0.002), while factors like institutional sustainability priorities (p = 0.468), business incentives (p = 0.809), and governance focus (p = 0.163) show no significant impact. The high residual sum of squares (72.081) indicates that external factors, such as market trends and regulations, also shape ESG perceptions.

CONCLUSION :

The findings indicate that ESG-linked financial products play a crucial role in shaping institutional perceptions of sustainable investments. While there is a moderate positive correlation, confidence in socially responsible practices emerges as the primary driver of sustainability perception. Other institutional priorities, such as governance focus and business incentives, do not significantly impact these perceptions. The high residual sum of squares suggests that external factors like market trends, regulatory policies, and investor preferences also influence ESG perceptions. Therefore, financial institutions looking to enhance sustainability engagement should focus on strengthening their commitment to socially responsible practices while considering broader market and regulatory dynamics.

LIMITATIONS :

- Investors responses may be influenced by personal beliefs or market trends, leading to potential overstatement or understatement of their ESG considerations.
- ESG perceptions are influenced by individual investors' experiences, financial goals, and risk appetites, leading to variability in responses.
- The study captures investor sentiment at a single point in time, but ESG preferences may shift due to evolving regulations, economic conditions, and global sustainability trends.
- Focusing on Indian investors may limit generalizability, as ESG investment attitudes vary across global markets with different regulatory frameworks and incentives.

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