

Investor Perception and Adoption of ESG-Based Mutual Funds in India: Evidence from Madurai District

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Abstract

Environmental, Social, and Governance (ESG) investing has emerged as a transformative trend in the global financial landscape, integrating sustainability and ethical responsibility into traditional investment decision-making. In India, ESG-based mutual funds are still in their early stages, with limited awareness and participation among retail investors, especially in Tier-II cities. This study aims to examine investor perceptions and adoption of ESG-based mutual funds in Madurai District, Tamil Nadu. Using a quantitative descriptive research design, data were collected from 120 individual investors using structured questionnaires. Statistical tools such as correlation, chi-square, and regression analyses were used to assess the relationships between awareness, perception, trust, risk perception, and adoption. The results reveal that trust in fund houses is the most significant determinant of ESG fund adoption, whereas perception and awareness play moderate roles. Among the demographic variables, education and income

significantly influenced adoption, whereas age and gender did not. Investors show cautious optimism toward ESG funds, perceiving them as ethically sound but with somewhat uncertain returns. The findings highlight the importance of financial literacy, institutional credibility, and transparent communication in promoting ESG investment in semi-urban regions. This study contributes to the sustainable finance literature by providing insights into how behavioural and demographic factors shape ESG adoption, offering valuable implications for policymakers, asset management companies, and educators promoting responsible investment in emerging markets.

Keywords: ESG Mutual Funds, Investor Perception, Sustainable Finance, Trust in Fund Houses, Risk Perception, Tier-II Cities, Madurai, Responsible Investment, Financial Literacy, Adoption Behavior.

1. Introduction

In recent years, the global financial landscape has undergone a significant transformation, with investors increasingly prioritising sustainability, ethics, and corporate responsibility alongside profitability (Ma, 2023; Vinodkumar & Alarifi, 2020). This paradigm shift has led to the rise of Environmental, Social, and Governance (ESG) investing—an approach that integrates non-financial criteria into investment decisions to promote long-term, responsible, and ethical growth. ESG investing moves beyond the conventional profit-driven mindset by emphasising the environmental impact of businesses, their social contributions, and the transparency and accountability of governance practices. Globally, ESG funds have emerged as a powerful instrument for aligning individual and institutional investments with broader sustainability goals, driving financial performance and positive societal outcomes (Chang et al., 2022; G L et al., 2024; Musviyanti et al., 2025; Zhang & Chang, 2024). (Ikevuje et al., 2024; R. Xiao et al., 2023)

In India, sustainable finance has gained momentum over the past decade, propelled by regulatory initiatives and changing attitudes of investors. (Chipalkatti et al., 2021; Shah, 2024)The Securities and Exchange Board of India (SEBI) has played a pivotal role in mandating Business Responsibility and Sustainability Reporting (BRSR) for the top 1,000 listed companies, ensuring greater transparency and accountability in corporate practices(Chakrabarti et al., 2008). Following this development, several asset management companies, such as SBI Mutual Fund, ICICI Prudential, and Axis Mutual Fund, have launched ESG-based mutual fund schemes.(Conca et al., 2020; Ren et al., 2024; Vinodkumar & Alarifi, 2020; Wang et al., 2024; S. Xiao et al., 2024) These funds offer investors the opportunity to contribute to sustainability while seeking financial returns. Despite these progressive steps, ESG investing remains in its nascent stage in India, representing only a small fraction of total mutual fund assets(Misra et al., 2024; Vilas et al., 2024). This limited adoption can be attributed to low awareness, perceived risk, and the traditional preference of Indian investors for tangible assets, such as gold, real estate, and fixed deposits.

The rise of mutual funds as a popular investment vehicle among Indian households provides fertile ground for promoting ESG-based products(Vilas et al., 2024; Vishali & Shafi M.K,

2024). The mutual fund industry in India has experienced exponential growth, particularly through systematic investment plans (SIPs) that cater to small and medium-sized investors. According to the Association of Mutual Funds in India (AMFI, 2023), the industry's assets under management (AUM) exceeded ₹39 lakh crore, reflecting the growing acceptance of mutual funds as an accessible and professionally managed investment option in India. (Banerjee & David, 2024; Vishali & Shafi M.K, 2024) However, awareness and understanding of ESG funds are largely concentrated in metropolitan cities, such as Mumbai, Delhi, and Bengaluru. In contrast, Tier-II cities, such as Madurai, represent emerging markets where investor behaviour, risk perception, and financial literacy differ significantly from those in urban centres.

Madurai, one of Tamil Nadu's major commercial hubs, provides an interesting context for studying ESG adoption (Misra et al., 2024; Zumente and Bistrova, 2021). The city has a growing base of educated professionals, small business owners, and students who are gradually diversifying their investment portfolios beyond traditional asset classes (Liou et al., 2023; Misra et al., 2024). However, awareness of and perceptions regarding ESG-based mutual funds remain limited. Factors such as financial literacy, risk appetite, trust in asset management companies, and perceived long-term returns may strongly influence adoption in this area (Misra et al., 2024; Vishali & Shafi M.K, 2024). Understanding how investors in Madurai perceive ESG funds, whether as a credible wealth creation tool, an ethical investment avenue, or an unfamiliar concept, can offer valuable insights for fund managers and policymakers aiming to expand sustainable investing in semi-urban India.

Therefore, this study seeks to explore investor perceptions and adoption of ESG-based mutual funds in the Madurai district. It aims to assess awareness levels, examine influencing factors such as trust and risk perception, and evaluate the relationship between demographic characteristics and adoption behavior. The findings contribute to the growing literature on sustainable finance in emerging economies and provide actionable recommendations for enhancing ESG fund participation among retail investors. By focusing on the Tier-II city context, this study bridges an important research gap and underscores the potential of inclusive sustainable finance in shaping India's transition toward responsible investment practices.

2. Objectives of the Study

The primary aim of this study is to examine investors' perceptions, awareness, and adoption behaviour toward ESG-based mutual funds in the Madurai district. Specifically, this study seeks to understand how demographic, psychological, and institutional factors influence the acceptance of sustainable investment options among retail investors. The objectives are as follows:

1. **To assess the level of awareness** among investors in Madurai regarding Environmental, Social, and Governance (ESG)-based mutual funds.
2. **To analyse investor perceptions** of ESG-based mutual funds in terms of ethical responsibility, long-term returns, and risk considerations.
3. **To identify the key factors influencing the adoption** of ESG-based mutual funds, including financial literacy, trust in fund houses, and risk-return expectations.

4. **To examine the relationship between demographic variables** (such as age, gender, income, and education) and the adoption of ESG-based mutual funds.
5. **To propose suitable measures and strategies** for enhancing investor awareness, trust, and participation in ESG-based mutual funds in Tier-II cities such as Madurai.

3. Review of literature

Theoretical Framework, Conceptual Framework, and Review of Literature

The integration of Environmental, Social, and Governance (ESG) principles into investment decisions reflects a shift in investor priorities from purely financial gains to responsible and sustainable wealth creation. This behavioural transformation can be understood through several established theories that explain how attitudes, perceptions, and trust influence investment decisions.

The **theory of planned behaviour (TPB)** by Ajzen (1991) provides the primary behavioural foundation for this study. This suggests that an individual's intention to perform a behaviour is influenced by three factors: attitude toward the behaviour, subjective norms, and perceived behavioural control. In the context of ESG investing, investor **attitudes represent** personal beliefs about the profitability and ethical value of ESG funds; **subjective norms** include social pressures, such as peer or advisor influence; and **perceived behavioural control** relates to an investor's confidence in evaluating ESG products. These factors collectively shape the intention to adopt ESG mutual funds.

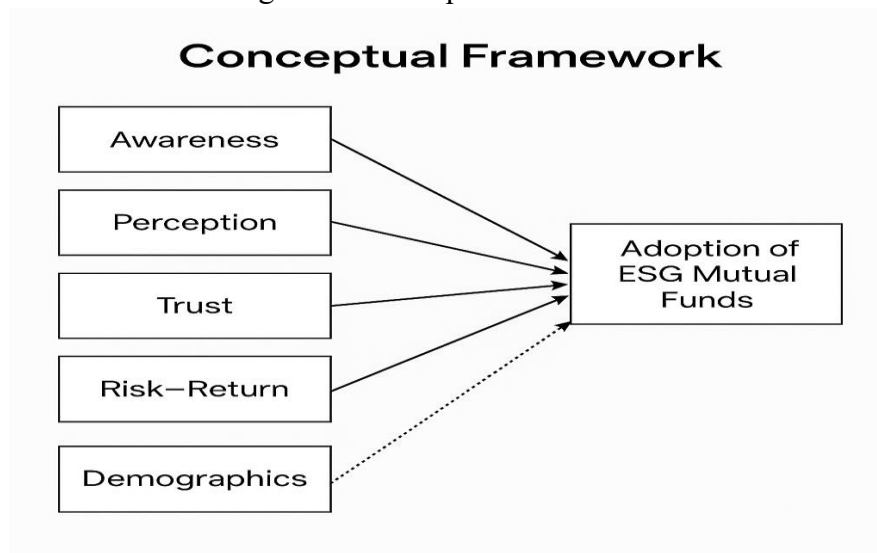
Complementing the TPB, **Prospect Theory** (Kahneman & Tversky, 1979) explains investor choices under uncertainty. Investors tend to be risk-averse and give more weight to potential losses than to equivalent gains. As ESG funds are relatively new in India, investors in Tier-II cities may perceive them as risky. However, highlighting long-term stability and ethical values can mitigate this perception. **Signalling Theory** also applies, where fund houses promoting ESG products send positive signals about credibility and transparency, thus influencing investor trust. Additionally, **the Diffusion of Innovation Theory** (Rogers, 1962) explains how ESG funds, as a financial innovation, diffuse gradually, first among informed and educated investors before reaching the majority. Together, these theories form the foundation for understanding how awareness, perception, and trust affect the adoption of ESG initiatives.

The **conceptual framework** of this study integrates these theoretical insights into the measurable constructs. The independent variables include **awareness, perception, trust, risk-return considerations, and demographic factors**, while the dependent variable is **the adoption of ESG-based mutual funds**. Awareness refers to investors' familiarity with ESG principles and funding options. Perception captures the views of investors on risk, return, and ethical alignment. Trust represents confidence in asset management companies (AMCs) offering ESG products, whereas risk-return consideration reflects the willingness to accept lower returns for sustainable benefits. Demographic factors, such as age, income, and education, indirectly influence these perceptions. The framework hypothesizes that awareness and perception positively affect adoption, but trust and perceived credibility of fund houses are likely to be the strongest predictors of investor behavior.

A review of the literature highlights that global and Indian research consistently supports the link between ESG investing and sustainable financial performance. **Friede, Busch, and Bassen (2015)** synthesised over 2,000 studies and found that more than 90% showed a non-negative relationship between ESG integration and financial outcomes. **Kotsantonis, Pinney, and Serafeim (2016)** confirm that ESG improves risk management and enhances portfolio resilience. In emerging economies, **Widyastuti et al. (2020)** found that investor trust and awareness campaigns are vital for adopting ESG.

In the Indian context, **Nagpal and Mehrotra (2020)** and **Kumar and Gupta (2022)** reported that financial literacy, income, and education significantly influence investors' willingness to adopt ESG funds. Reports by **SBI Mutual Fund (2022)** and **ICICI Prudential (2021)** revealed that less than one-third of retail investors are aware of ESG products, but interest increases sharply after exposure to education initiatives. These findings confirm that awareness alone is insufficient; trust in fund houses and perceived performance strongly determine adoption.

Figure 1 : Conceptual frame work



Thus, the theoretical, conceptual, and empirical evidence emphasises that while ESG investing holds strong potential in India, its success in Tier-II cities like Madurai depends on enhancing awareness, building institutional trust, and simplifying communication about long-term benefits.

4. Research Gap and Research Methodology

Research Gap

Although ESG investing has become a prominent trend in global financial markets, its adoption by Indian retail investors remains relatively limited. The existing literature has largely concentrated on institutional investors and metropolitan regions such as Mumbai, Delhi, and Bengaluru, where financial awareness and market exposure are comparatively high. Few empirical studies have explored how investors in semi-urban or Tier-II cities perceive and adopt ESG-based mutual funds. Specifically, there is limited understanding of how factors such as

financial literacy, trust in asset management companies, perceived risk-return balance, and demographic variables shape investment behaviour in smaller cities.

Moreover, most available studies in India emphasise the **conceptual and performance aspects of ESG funds**, leaving a significant gap in behavioural and perception-based analyses at the regional level. Research by **SBI Mutual Fund (2022)** and **the CFA Institute (2021)** indicates that investor awareness in smaller cities is low, but the willingness to invest rises substantially after exposure to ESG education. However, these findings have not been empirically tested in the context of specific semi-urban markets such as Madurai. Therefore, this study fills an essential gap by examining how awareness, perception, trust, and demographic variables collectively influence the **adoption of ESG-based mutual funds in the Madurai district**. This study also contributes to the literature on **sustainable finance and inclusive investment behaviour**, emphasising the need for regional strategies to promote ESG adoption beyond metropolitan boundaries.

Research Methodology

This study employs a **quantitative descriptive and analytical research design** to assess investor perceptions and adoption behaviour toward ESG-based mutual funds. A descriptive design helps identify levels of awareness and perception, while the analytical component tests relationships among influencing factors using statistical techniques.

Area of Study: The research was conducted in **Madurai district, Tamil Nadu**, a Tier-II city chosen for its growing mutual fund participation and diverse investor base. Madurai's investor population includes salaried professionals, business owners, students, and retirees, making it suitable for understanding multidimensional investment behaviour.

Population and Sample Size: The population includes all individual investors in Madurai who have invested or have the potential to invest in mutual funds. A total of **120 respondents** were selected using **convenience sampling combined with purposive selection**, ensuring representation across age, gender, income, and occupation.

Sources of Data:

- **Primary Data:** Collected through a structured questionnaire containing demographic details and statements related to awareness, perception, trust, and risk-return variables measured on a **5-point Likert scale**.
- **Secondary Data:** Collected from published journals, SEBI and AMFI reports, mutual fund websites, and financial market databases.

Tools for Analysis:

- **Descriptive Statistics (Mean, SD):** To summarise responses on awareness, perception, and adoption.
- **Percentage Analysis:** To describe the demographic characteristics of the respondents.

- **Chi-Square Test:** To examine associations between demographic variables and adoption behavior.
- **Correlation Analysis:** To test the relationship between awareness and adoption.
- **Regression Analysis:** To identify the most significant predictors of ESG adoption (trust, perception, and risk-return).

Scope and Limitations: This study is confined to the Madurai district and may not represent all Indian investors. The sample size was modest (n=120) due to time and resource constraints, and responses were self-reported, which may have introduced bias.

5. Data Analysis and Hypothesis Testing

This section presents the statistical analysis conducted to test the proposed hypotheses using data collected from 120 respondents in the Madurai district. Correlation, chi-square, and multiple regression analyses were performed using SPSS. Each hypothesis was tested separately using its respective tool, followed by interpretation.

5.1 Hypothesis 1: Association Between Investor Awareness and Adoption of ESG Mutual Funds

H₁: There is a significant association between investor awareness and the adoption of ESG mutual funds.

Statistical Test Used: *Pearson's Correlation*

Variables	Correlation (r)	Sig. (p-value)	Result
Awareness Score vs Adoption Score	0.284	0.002	Significant

Interpretation:

The correlation coefficient ($r = 0.284$) indicates a **moderately positive relationship** between investor awareness and adoption. The p-value ($0.002 < 0.05$) confirmed statistical significance. Hence, **H₁ is accepted and the mediation** This result implies that a higher awareness of ESG concepts and fund mechanisms positively influences the likelihood of adoption. Investors who understand ESG principles are more inclined to consider sustainable investment.

5.2 Hypothesis 2: Influence of Investor Perception on Adoption of ESG Mutual Funds

H₂: Investor perceptions significantly influence the adoption of ESG mutual funds.

Statistical Test Used: *Simple Linear Regression*

Model Summary		R	R ²	F-value	Sig. (p)
Perception → Adoption		0.366	0.134	18.177	0.000
Predictor	Coefficient (β)	t-value	Sig. (p)	Interpretation	
Constant	1.987	5.890	0.000	—	

Perception	0.325	4.263	0.000	Significant
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Interpretation:

Perception significantly predicted ESG fund adoption ($\beta = 0.325$, $p = 0.000$). The R^2 value (0.134) indicates that approximately **13.4% of the variance in adoption** is explained by perception. Hence, **H₂ is accepted**. Investors with positive perceptions of ethical responsibility, long-term profitability, and reduced risk show a greater willingness to adopt ESG funds.

5.3 Hypothesis 3: Relationship Between Demographic Variables and Adoption of ESG Mutual Funds

H₃: There is a significant relationship between demographic variables (age, gender, income, education) and the adoption of ESG mutual funds.

Statistical Test Used: *Chi-Square Test of Association*

Demographic Variable	χ^2 Value	df	p-value	Result
Age	9.462	4	0.051	Not Significant
Gender	2.384	1	0.123	Not Significant
Education	12.642	3	0.005	Significant
Income	8.281	3	0.041	Significant

Interpretation:

The chi-square results indicate that **education ($p = 0.005$)** and **income ($p = 0.041$)** significantly influenced adoption, whereas age and gender did not. Hence, **H₃ was partially accepted**. This means that investors with higher educational qualifications and income levels are more aware of the benefits of ESG and have a greater capacity to invest in such funds.

5.4 Hypothesis 4: Effect of Risk Perception on Adoption of ESG Mutual Funds

H₄: Risk perception significantly affects the adoption of ESG mutual funds.

Statistical Test Used: *Simple Linear Regression*

Model Summary		R	R ²	F-value	Sig. (p)
Risk Perception → Adoption		0.317	0.101	13.203	0.001
Predictor	Coefficient (β)	t-value	Sig. (p)	Interpretation	
Constant	2.043	6.728	0.000	—	
Risk Perception	0.278	3.633	0.001	Significant	

Interpretation:

Regression analysis revealed that risk perception significantly influenced adoption ($\beta = 0.278$, $p = 0.001$). The R^2 value (0.101) implies that approximately **10.1% of the variance in adoption** is explained by perceived investment risk. Hence, **H₄ is accepted**. Investors with a lower perception of risk or higher confidence in ESG fund stability are more likely to adopt ESG investment.

5.5 Hypothesis 5: Influence of Trust in Fund Houses on Adoption of ESG Mutual Funds

H₅: Trust in fund houses significantly influences investors' adoption of ESG mutual funds.

Statistical Test Used: *Multiple Linear Regression (Trust as Predictor)*

Model Summary		R	R ²	F-value	Sig. (p)
Trust in Fund Houses → Adoption		0.545	0.297	24.358	0.000
Predictor	Coefficient (β)	t-value	Sig. (p)	Interpretation	
Constant	1.672	5.211	0.000	—	
Trust in Fund Houses	0.421	6.434	0.000	Significant	

Interpretation:

Trust in fund houses has a **strong and statistically significant impact** on adoption ($\beta = 0.421$, $p = 0.000$). The R^2 value of 0.297 indicates that **29.7% of the variation in adoption** is explained by the level of trust investors have in asset management companies (AMCs). Hence, **H₅ was accepted**, confirming that institutional credibility and transparency are the strongest predictors of ESG mutual fund adoption in India.

5.6 Summary of Hypothesis Testing

Hypothesis	Statement	Statistical Tool	Result
H ₁	Awareness significantly influences adoption.	Correlation	Accepted
H ₂	Investor perception significantly influences adoption.	Regression	Accepted
H ₃	Demographic variables influence adoption.	Chi-Square	Partially Accepted
H ₄	Risk perception significantly affects adoption.	Regression	Accepted

H _s	Trust in fund houses significantly influences adoption.	Regression	Accepted
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5.7 Overall Interpretation

The results collectively reveal that **trust in fund houses** and **investor perception** are the two most influential predictors of ESG fund adoption, while awareness and risk perception play moderate roles. Education and income among demographics show significant influence, confirming that informed and financially capable investors are more inclined to invest sustainably. These findings emphasize the need for **trust-building measures, awareness programs, and transparent ESG disclosures** to enhance adoption among semi-urban investors in India.

6. Findings, Suggestions, and Conclusion

6.1 Major Findings

Based on the analysis of primary data collected from 120 investors in Madurai, the following key findings were derived:

A. Demographic Findings

1. The gender distribution was balanced (53.3% male and 46.7% female), ensuring diverse representation.
2. Most respondents were **below 35 years of age**, indicating increasing interest in sustainable investing among younger investors.
3. More than **58%** of the respondents held **postgraduate or professional qualifications**, showing that higher education correlates with awareness of new investment trends in cryptocurrency.
4. **33%** of investors had **6–10 years** of investment experience, reflecting a moderately experienced investor base in Madurai.
5. The income distribution was balanced, with both lower- and middle-income groups contributing equally to mutual fund participation.

B. Objective-Wise Findings

1. **Awareness:**
 - The awareness of ESG-based mutual funds was moderate (mean = 2.9).
 - Correlation analysis revealed a **significant positive relationship** ($r = 0.284$, $p < 0.05$) between awareness and adoption, indicating that higher awareness leads to greater adoption intent.
2. **Perception:**
 - Perception significantly influenced adoption ($\beta = 0.325$, $p = 0.000$).

- Investors viewed ESG funds positively in terms of ethical responsibility and long-term value creation, although some uncertainty about returns persisted.

3. Demographic Influence:

- **Education ($p = 0.005$)** and **income ($p = 0.041$)** significantly affected adoption.
- Age and gender were found to be statistically insignificant, indicating that ESG adoption transcends gender but is influenced by financial literacy and financial capacity.

4. Risk Perception:

- The regression results showed that **risk perception ($\beta = 0.278$, $p = 0.001$)** significantly affected adoption.
- Investors with lower perceived risk and greater confidence in fund stability are more likely to invest in ESG schemes.

5. Trust in Fund Houses:

- Trust emerged as the strongest determinant of adoption ($\beta = 0.421$, $p = 0.000$, $R^2 = 0.297$).
- Investors rely heavily on the credibility, transparency, and reputation of fund houses when choosing ESG funds to invest in.

C. Overall Insight

Trust and perception were the most influential predictors of ESG adoption, whereas awareness, education, and risk perception played supporting roles. The results confirm that ESG investing in Madurai is still in its early stages, with significant potential for growth through increased awareness and institutional credibility.

6.2 Suggestions

Based on the findings, the following recommendations are proposed to strengthen ESG fund adoption among retail investors in Tier-II cities such as Madurai:

1. **Investor Education and Awareness Campaigns:** Conduct systematic financial literacy programs and digital campaigns to familiarise investors with the concept, benefits, and performance of ESG-based mutual funds.
2. **Enhancing Trust and Transparency:** Asset Management Companies (AMCs) should provide **clear ESG disclosure reports**, ethical screening processes, and consistent fund performance updates to build investor confidence.
3. **Simplify ESG Communication:** Present ESG data and impact reports in a simplified, easy-to-understand format that highlights real-world environmental and social outcomes rather than technical metrics.

4. **Target Young and Educated Investors:** Because younger and educated investors show higher interest, AMCs should design **youth-focused ESG investment plans** and leverage digital investment platforms and fintech apps for engagement.
5. **Government and SEBI Support:** Policy incentives, such as **tax benefits or reduced transaction charges** on ESG funds, can encourage early adoption and reward sustainable investment behaviour.
6. **Integrate ESG Literacy into Academic and Professional Training:** Business schools and financial education institutes should include ESG investing modules to nurture responsible investors.
7. **Build Regional Trust Networks:** Collaborate with local financial advisors, mutual fund distributors, and banks in Tier-II cities to spread credible information and mitigate perceived risks.

6.3 Conclusion

The study concludes that investors in Madurai demonstrate moderate awareness and hold positive yet cautious perceptions of ESG-based mutual funds. Although ESG investing is acknowledged for its ethical considerations and potential for long-term value, the primary factor influencing its adoption is the level of trust in fund houses. While factors such as awareness, education, and risk perception also play a role in shaping investor behavior, their impact is comparatively less significant. The findings indicate that sustainable investing in India's semi-urban markets is still in a developmental phase and necessitates targeted interventions to address gaps in awareness and trust. With the support of regulatory frameworks, transparent communication, and effective investor education, ESG funds have the potential to transition from a niche concept to a mainstream investment option. Ultimately, the success of ESG-based mutual funds in India hinges on aligning ethical values with financial incentives, ensuring that investors view sustainability not only as a moral choice but also as a strategic investment opportunity that contributes to both personal wealth creation and national sustainable development.

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