ENVIRONMENTAL DISCLOSURES AND INVESTOR DECISION-MAKING: A STUDY OF INDIAN LISTED COMPANIES

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ABSTRACT

Environmental disclosures have become an important aspect of corporate transparency and sustainable investing. This study focuses on examining investor awareness, perception, and behaviour towards environmental disclosures made by Indian listed companies and to analyse whether such disclosures influence investment decisions and perceived market performance. The research is based on both primary and secondary data. Primary data was collected through a structured questionnaire administered to investors and non-investors, while secondary data was obtained from journals, reports, and online sources. Percentage analysis and graphical tools were used for data interpretation. The findings reveal that a majority of respondents are familiar with environmental disclosures and consider them important in investment decision-making. The study also highlights concerns related to greenwashing and the need for standardised and verified disclosures. Overall, the research suggests that environmental disclosures play a significant role in shaping investor trust, behaviour, and perceptions of company performance.

Keywords: *Environmental Disclosures, Investor Behaviour, Sustainability Reporting, Market Performance, Indian Listed Companies*

INTRODUCTION

In recent years, environmental sustainability has gained significant attention from investors, regulators, and corporations worldwide. Indian listed companies are increasingly required to disclose information related to their environmental practices, carbon emissions, resource usage, and sustainability initiatives. These disclosures aim to enhance transparency and help investors assess long-term risks and opportunities associated with environmental performance.

Environmental disclosures form a critical part of Environmental, Social, and Governance (ESG) reporting and are increasingly influencing investor decision-making. Investors today not only evaluate financial performance but also consider how companies manage environmental risks and comply with sustainability norms. However, the effectiveness of these disclosures influences investor behaviour, and perceived market performance remains an area of ongoing research.

This study seeks to analyse investor awareness and perception of environmental disclosures and examine their influence on investment decisions and stock market performance, with special reference to Indian listed companies.

REVIEW OF LITERATURE

(Bhanawat, 2021) The reviewed study analysed the practices related to environmental disclosure of 70 NSE-listed companies using the Business Responsibility Report (BRR) framework. It found that about 96% of companies followed SEBI's reporting format, with the pulp and paper sector leading in disclosure. A weighted score revealed an overall 68% disclosure adherence. The research highlights disparities across sectors, with some companies overlooking up to 32% of the required information. BRR's principle 6 is central in standardizing environmental reporting across Indian listed firms. The findings indicate significant progress due to regulatory mandates, though sector-specific differences persist. Enhanced transparency promotes better stakeholder communication. Still, gaps remain in consistency and coverage. The study advocates stronger oversight and incentives for improved disclosure.

(Kaur, 2024) This systematic review explores the impact of environmental disclosure practices on corporate financial performance. It synthesizes studies using the Bloomberg ESG score as a leading metric for environmental disclosure. Most research finds a positive correlation between detailed disclosure and firm performance, whether measured by accounting ratios or market value. The review notes differences among developed and developing countries, with India showing increasing regulatory pressure. Environmental reporting moves beyond voluntary compliance toward mandated and standardized formats. Stakeholder demand is a driving force behind this trend. The authors find some mixed results but overall support for disclosure enhancing financial outcomes. The review calls for more comprehensive frameworks in Indian corporate governance. Future studies should address persistent gaps in voluntary reporting.

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(Mulchandani, 2022) A recent study examines if equity investors in India respond to firms' ESG (environmental, social, governance) disclosures. Firms reporting higher ESG transparency benefit from lower equity costs, indicating that investors reward long-term commitments to sustainability. Findings show that low ESG performance does not significantly impact equity cost, but high disclosure brings measurable gain. Among ESG factors, governance disclosures weigh most heavily for investor decisions, whereas environmental and social aspects currently show less direct impact. The research suggests Indian investors increasingly prefer socially responsible firms. This drives companies toward improved reporting standards. The authors recommend expanding ESG evaluation metrics in future research. The study highlights ESG disclosure's role in lowering financial risk and boosting investor trust.

(Gurjar, 2018) Thesis-level studies document that many Indian firms still emphasize narrative environmental reporting in annual reports more than quantitative accounting of environmental costs. Researchers analyzing industry samples (paper, aluminium, chemical) report limited adoption of environmental accounting practices and recommend more consistent disclosure of environmental liabilities and remediation costs. These works repeatedly call for policy guidance and auditing standards to make disclosures decision-useful for investors

(Dangwal, 2020) Analyze determinants of ESG disclosure across Indian firms using cross-sectional evidence. They build an ESG disclosure index and find firm size, profitability, and board characteristics positively predict disclosure levels. The study reports mixed effects for ownership structure; promoter/family ownership sometimes reduces disclosure intensity. The authors discuss legitimacy and stakeholder theories to explain why firms disclose. They also identify industry fixed effects: environmentally sensitive sectors

(Geetha Jaikumar, 2013) Corporate environmental performance in India, rather than solely disclosure. Their study identifies organizational factors influencing performance: existence of environmental policy, action plans (for energy saving, effluent treatment, solid waste management), environmental education, use of selection of technology, and life cycle assessment. The researchers observed that the companies implementing these policies and structural environmental programs tend to perform better on environmental metrics. The study adds insight that environmental disclosure is tied not just to what is said, but what firms are actually doing; performance and disclosure are correlated though not perfectly aligned. For your study, this underscores that disclosures may reflect real investments in environmental management.

OBJECTIVE OF THE STUDY

1. To assess the level and quality of environmental disclosures among Indian listed companies.
2. To analyze the impact of environmental disclosures on investor decision-making and behavior.
3. To evaluate whether environmental disclosures influence stock price movement and investor trust in the company.

Scope of the study

The scope of the study is limited to Indian listed companies and focuses on investor perceptions related to environmental disclosures. The study covers retail investors, institutional investors, financial analysts, and non-investors. It does not involve financial ratio analysis or actual stock price modelling and is based primarily on perceptual and behavioural data collected through a survey.

RESEARCH METHODOLOGY

The study adopts a quantitative research design. Primary data was collected using a structured questionnaire distributed online through Google Forms. A total of 72 valid responses were received from participants with diverse levels of investment experience.

Additionally, secondary data was collected from academic journals, sustainability reports, ESG literature, and published articles related to environmental disclosures and investor behaviour.

Survey Design

The questionnaire was organised into four sections:

- Section A: Respondent Profile
- Section B: Awareness and Perception of Environmental Disclosures
- Section C: Investor Behaviour and Market Impact
- Section D: Disclosure Credibility and Future Outlook

Most questions were closed-ended to facilitate percentage analysis and graphical representation.

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Sample
A sample of 65 respondents was selected using a convenience sampling technique. The sample includes retail investors, institutional investors, financial analysts/advisors, and non-investors from different age groups, education levels, and occupational backgrounds.

Data Collection
The questionnaire was circulated electronically through professional networks and social media platforms. Participants were informed that the information collected would be used exclusively for academic purposes and would remain confidential.

Data Analysis
The data was evaluated using percentage analysis and pie/bar charts. The results were interpreted to identify patterns related to investor awareness, trust, decision-making behaviour, and perceptions of environmental disclosures.

Interpretation of Results
The objectives and hypotheses of the study are taken into consideration while interpreting the data analysis. To contextualise the findings and highlight similarities, differences, and emerging trends, the results are compared with existing literature, prior empirical studies, and sustainability reporting frameworks. This comparative approach enables a meaningful discussion on the current status of environmental disclosures by Indian listed companies, their influence on investor awareness and decision-making, industry-wise variations in disclosure practices, and the perceived impact on market performance, as well as investor concerns regarding credibility and greenwashing.

HYPOTHESES OF THE STUDY

Hypothesis 1: Industry Variation
H_0: The level of environmental disclosure by Indian listed companies does not significantly vary across different industries.

H_1: The level of environmental disclosure by Indian listed companies significantly varies across different industries.

Hypothesis 2: Disclosure and Investor Behaviour
H_0: Environmental disclosures have no significant impact on investor decision-making.

H_1: Environmental disclosures have a significant impact on investor decision-making.

Hypothesis 3: Disclosure and Market Performance
H_0: There is no significant relationship between environmental disclosures and the market performance (stock price) of Indian listed companies.

H_1: There is a significant relationship between environmental disclosures and the market performance (stock price) of Indian listed companies.

Data Interpretation and Analysis

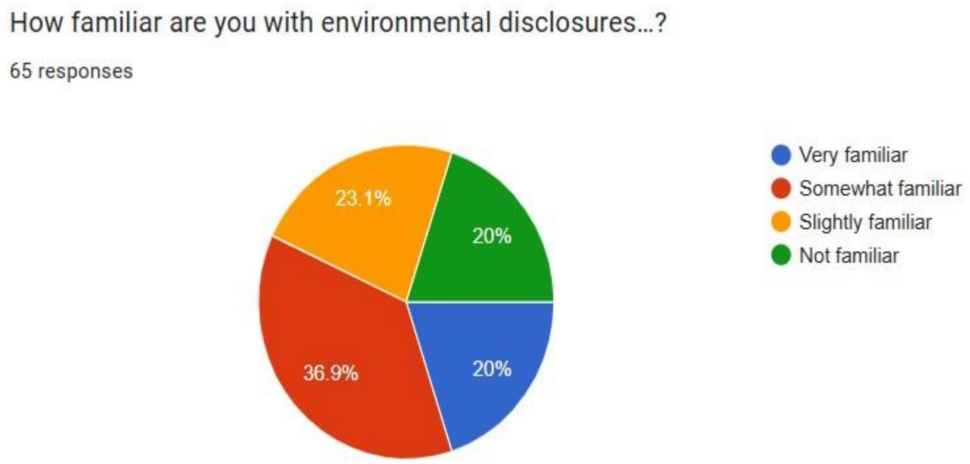

Chart 1 Familiarity with Environmental Disclosures

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The pie chart shows that 20% of the respondents are very familiar with environmental disclosures, showcasing a strong understanding of sustainability reporting practices. 36.9% of respondents are somewhat familiar, suggesting a reasonable level of awareness amongst investors. 23.1% reported being slightly familiar, indicating partial exposure to environmental disclosures, while 20% stated that they are not familiar. This indicates that although awareness is relatively high, there is still scope for improving investor knowledge regarding environmental disclosures.

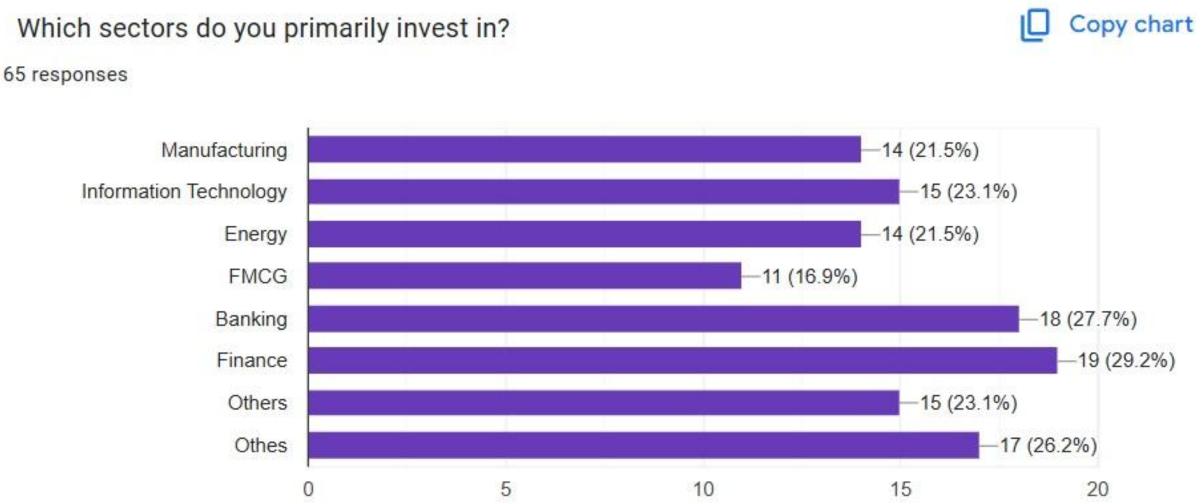

Chart 2 Sector-wise Investment Preference

The chart reveals that respondents invest across multiple sectors, with finance (29.2%) and banking (27.7%) being the most preferred sectors, followed by information technology (23.1%), energy (21.5%), and manufacturing (21.5%). FMCG (16.9%) and other sectors also attract a notable share of investments. This diversified investment pattern suggests that investors are exposed to companies from industries with varying environmental impacts, supporting the notion that environmental reporting practices may differ across industries.

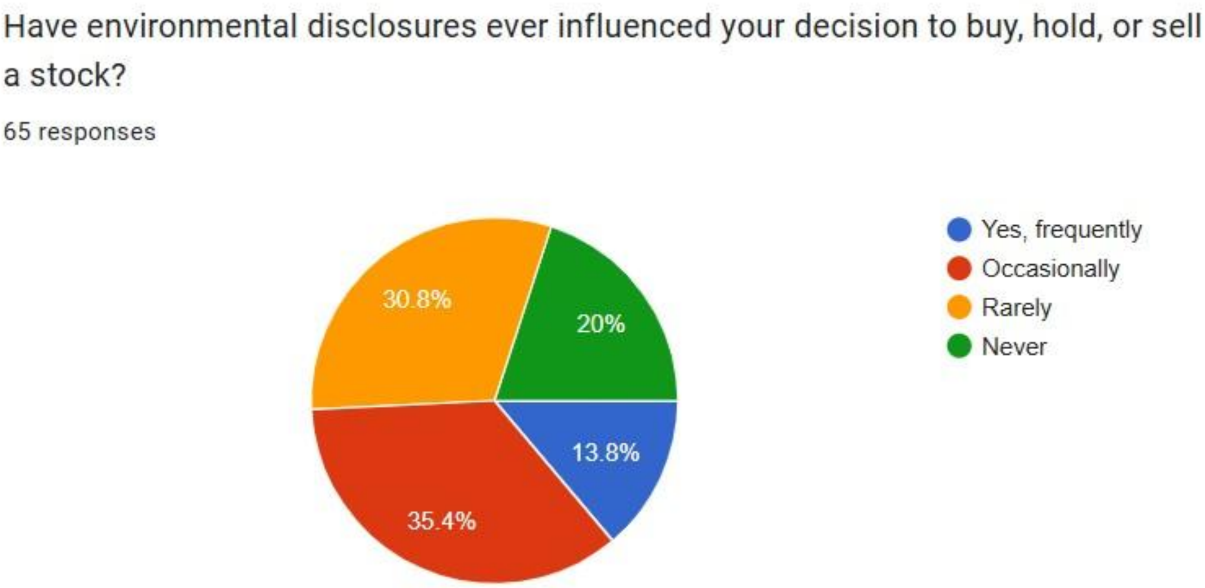

Chart 3 Perceived Impact of Environmental Disclosures on Investment Decisions

The findings suggest that environmental disclosures influence investment decisions of most respondents, rarely or occasionally for a majority of participants. This points to the increasing importance of non-financial information in investment analysis and supports the argument that environmental disclosures contribute a meaningful role in shaping investor behaviour.

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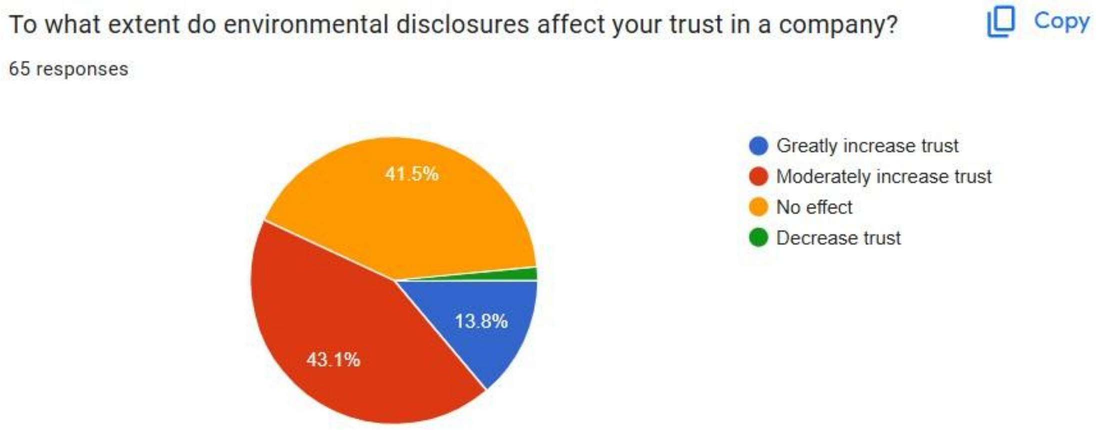

Chart 4 Trust in Companies Providing Environmental Disclosures

The diagram presents that most respondents believe environmental disclosures moderately enhance the trust in a company. However, a portion of respondents expressed neutral views, suggesting uncertainty regarding the reliability and standardisation of such disclosures. This highlights the need for improved transparency and consistent reporting frameworks.

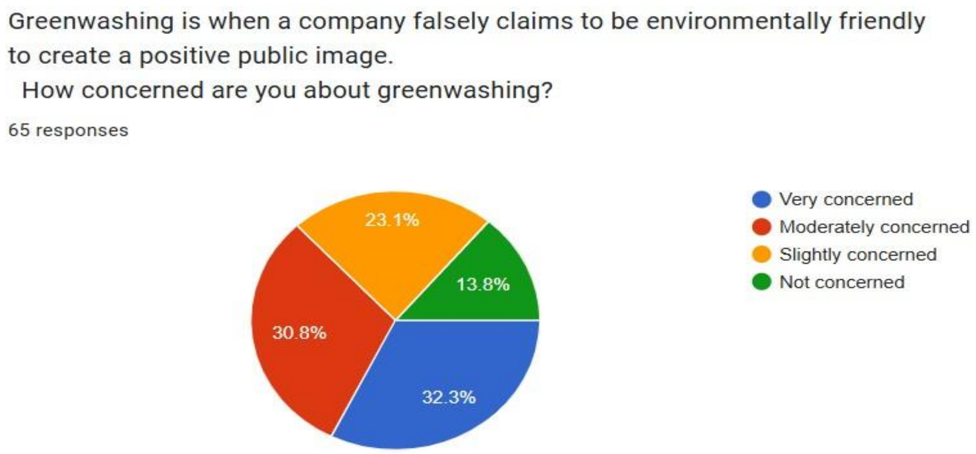

Chart 5 Concerns Regarding Greenwashing

The chart shows that most respondents are either very concerned or moderately concerned about greenwashing in environmental disclosures. This indicates growing investor scepticism and reinforces the demand for verified, accurate, and standardised environmental reporting practices among Indian listed companies.

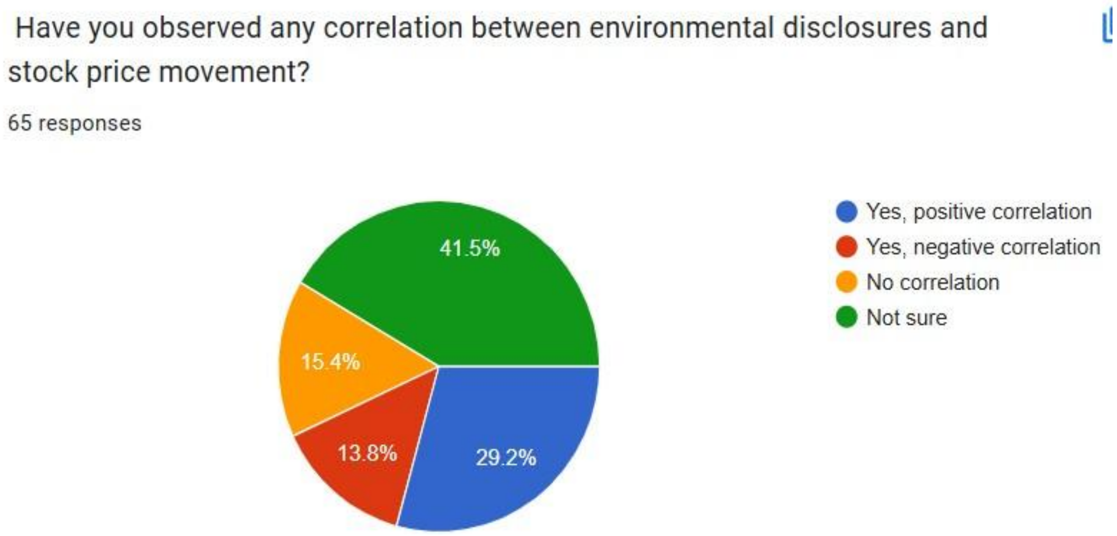

Chart 6 Perceived Impact of Environmental Disclosures on Market Performance

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Although respondents have mixed views, a significant proportion believes that companies with strong environmental disclosures enjoy a competitive advantage in the stock market. This suggests a perceived relationship between environmental transparency and market performance, even if direct stock price impacts are not always observable.

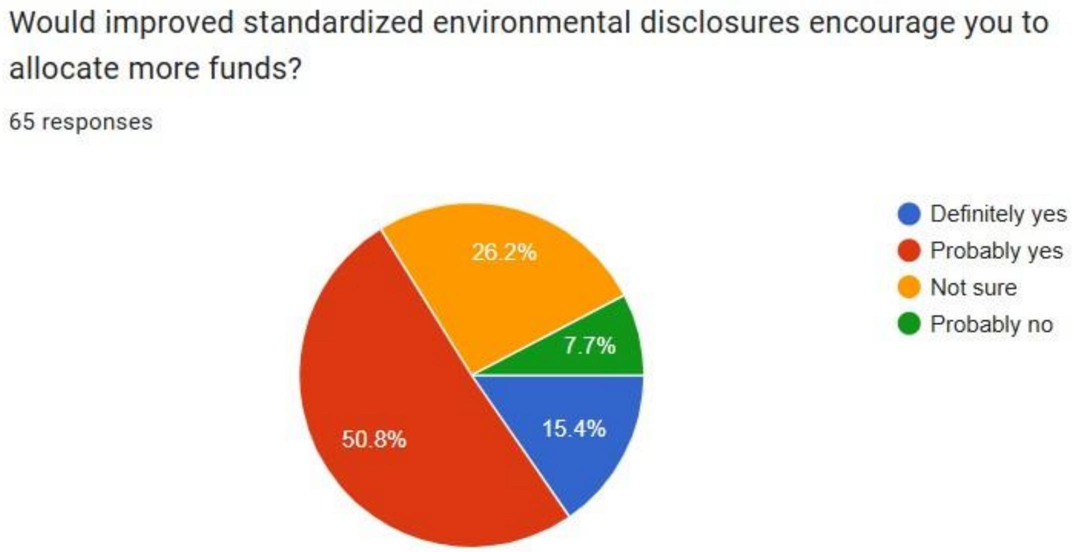

Chart 7 Willingness to invest in companies with Strong Environmental Disclosures

The graphical chart represents that most individuals surveyed are probably yes or definitely yes to invest more in companies demonstrating strong environmental disclosure practices. This indicates a positive future outlook for sustainable investing and supports the growing relevance of environmental transparency in capital allocation decisions

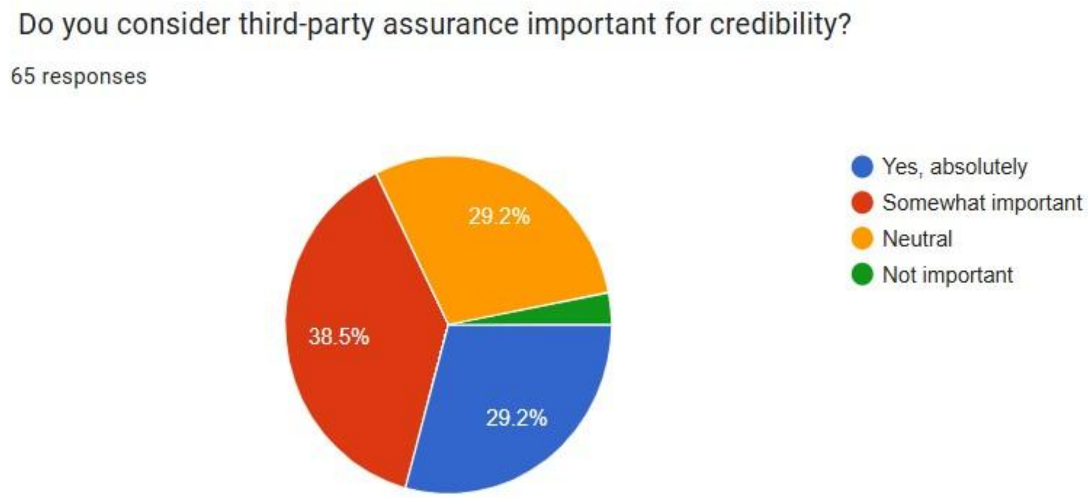

Chart 8 Importance of Third Party Assurance of Environmental Disclosures

Survey results indicate that a majority of respondents agree that third-party assurance is important for enhancing the credibility of environmental disclosures. This reflects investor concern regarding the authenticity of sustainability information and the need to minimize the risk of misleading disclosures or greenwashing.

Testing of Hypotheses

Hypothesis 1: Industry Variation

The survey indicates that respondents invest across diverse industries and perceive variations in environmental disclosures depending on the nature of the industry. Sectors such as energy, manufacturing, and finance are commonly involved with increased environmental impact and disclosure requirements.

Result:

The null hypothesis is rejected and the alternative hypothesis is accepted, indicating that the level of environmental disclosure varies across different industries

Hypothesis 2: Disclosure and Investor Behaviour
A majority of respondents reported that environmental disclosures influence their investment decisions and affect their trust in companies. The importance assigned to disclosures and their role in buy, hold, or sell decisions indicates a strong behavioral impact.

Result: The null hypothesis is rejected, and the alternative hypothesis is accepted, confirming that environmental disclosures contribute meaningfully to investors decision-making.

Hypothesis 3: Disclosure and Market Performance
While the research does not evaluate stock prices, investor perceptions suggest a potential link between environmental disclosures and market performance. Many respondents associate strong disclosures with competitive advantage and positive stock market perception.

Result:
The null hypothesis is rejected and the alternative hypothesis is accepted at a perceptual level, indicating a relationship between environmental disclosures and market performance.

FINDINGS

1. A total of 56.9% of respondents reported being either very familiar or somewhat familiar with environmental disclosures, indicating that a majority of participants possess basic awareness of environmental reporting practices adopted by companies. However, a noticeable proportion remains only slightly familiar or unfamiliar, suggesting scope for improved investor education.
2. More than 70% of respondents considered environmental disclosures to be important or extremely important in their investment decision-making process. This highlights the growing relevance of environmental information in evaluating corporate performance and sustainability.
3. Carbon emissions, waste management, renewable energy adoption, and water usage were identified as the most closely monitored environmental factors, with over half of the respondents paying attention to these indicators. This reflects increased investor sensitivity toward environmental risk and sustainability practices.
4. A majority of respondents stated that environmental disclosures influence their investment decisions either frequently or occasionally, demonstrating that environmental transparency plays a meaningful role in shaping investor behaviour.
5. Around 60% of respondents agreed or strongly agreed that environmental disclosures increase investor trust, indicating that transparent reporting positively affects perceptions regarding corporate credibility and ethical responsibility.
6. A significant proportion of respondents perceived that companies providing strong environmental disclosures enjoy a competitive advantage in the stock market, which indicates that although some respondents remained neutral regarding the direct impact on stock price movement. This highlights that while environmental disclosures enhance credibility, their immediate market effect may not always be directly observable.
7. More than two-thirds of respondents felt that third-party assurance is important for improving the credibility of environmental disclosures. This highlights concerns regarding reliability and consistency in current reporting practices.
8. A majority of respondents expressed moderate to high concern about greenwashing, indicating scepticism toward unverified or exaggerated environmental claims made by companies.
9. Most respondents indicated that improved and standardized environmental disclosures would encourage them to invest more in environmentally responsible companies, reflecting a positive outlook toward sustainable investing.

Overall, the findings indicate strong investor awareness, growing reliance on environmental disclosures, and increasing demand for credible, standardized, and verified environmental reporting.

CONCLUSION
The study highlights the increasing importance of environmental disclosures in influencing investor awareness, trust, and investment decision-making among Indian listed companies. The findings indicate that investors actively consider environmental information, particularly areas like carbon emissions, waste management, renewable energy, and water usage while evaluating companies. The results support the alternative hypotheses of the study, confirming that environmental disclosure levels vary across industries and have a significant

influence on investor behavior. Although the direct relationship between environmental disclosures and stock price performance is perceived with some uncertainty, a majority of respondents believe that strong environmental transparency enhances corporate reputation and provides a competitive market advantage.

However, the study also reveals challenges such as concerns over greenwashing, lack of standardization, and doubts regarding disclosure credibility. These issues emphasize the need for third-party assurance, regulatory frameworks, and uniform reporting standards to strengthen investor confidence. Environmental disclosures should not be viewed merely as compliance requirements but as strategic tools that promote transparency, accountability, and long-term value creation. As sustainable investing continues to gain prominence, companies that proactively adopt credible and comprehensive environmental reporting practices are likely to attract greater investor interest and trust in the future.

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