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Why Investors Fail to Act Sustainably: A Psychological Review Beyond Bias

Dr. Yashasvi Mishra
Assistant Professor, Department of Commerce and Management, C.M. Dubey Post Graduate College, Bilaspur, Chhattisgarh

Annotation. The rapid growth of sustainable investing reflects increasing global concern for environmental, social, and governance (ESG) issues. However, a notable discrepancy persists between investors expressed support for sustainability and their actual portfolio choices. This study explores the psychological foundations underlying this disconnect. Drawing on a systematic review of academic literature published between 2000 and 2025; the research integrates perspectives from behavioural finance and sustainable finance to examine why investors often refrain from acting on sustainability intentions. While established cognitive biases such as loss sensitivity, overestimation of personal judgment, and reliance on heuristics play a meaningful role, the findings suggest that investment inertia cannot be explained by biases alone. Emotional attachments to conventional assets, perceived ambiguity surrounding ESG performance, identity-related motivations, and prevailing social norms also influence decision outcomes. Additionally, the complexity and framing of ESG information shape how investors evaluate trade-offs between financial returns and ethical considerations. The review emphasizes that behavioural design mechanisms, including structured choice environments and clearer sustainability disclosures, can help bridge the gap between intention and action. Overall, the study provides a comprehensive psychological perspective on sustainable investment inaction and offers practical insights for advancing responsible financial behaviour.

Keywords: Sustainable finance; Investor psychology; ESG behaviour; Decision inertia; Behavioural intervention.

1. Introduction

Sustainable investing defined as the integration of environmental, social, and governance (ESG) criteria into financial decision-making has become one of the most rapidly evolving areas in global finance, driven by rising stakeholder demand for ethical and impact-oriented investment strategies. Despite increasing public awareness of sustainability issues and the availability of ESG-related information, a persistent gap exists between investor awareness and actual sustainable investment behaviour. Traditional finance theories, grounded in rational choice and efficient markets, assume that investors make decisions by optimally balancing risk and return. However, a growing body of research suggests that real-world investment choices often diverge from these rational models due to psychological influences and cognitive limitations, which are central concerns of behavioural finance. Behavioural finance thus provides a valuable perspective on sustainable investment by examining how mental processes and biases influence investor behaviour beyond pure economic reasoning (Shu, 2025).

Key behavioural biases such as overconfidence, loss aversion, herding, and framing effects—can skew investor perceptions of ESG information and distort decision outcomes. For instance, overconfidence may cause investors to overestimate their ability to interpret ESG ratings, while loss aversion can bias them toward conventional assets with familiar risk profiles rather than long-term sustainable investments (Ding, 2025). Empirical studies also indicate that heuristics and mental shortcuts play a role in shaping how investors process complex sustainability data, often leading to inconsistent preferences that contradict stated sustainability goals (Heboyan, 2025).

Moreover, sustainable investing decisions are not only influenced by individual biases but also by social and informational contexts. Behavioral insights reveal that social norms, ethical identity, and moral motivations can compete with or complement financial motives, creating multifaceted investment behaviours that are not easily captured by conventional models (Shaik & Yadavalli, 2025). These factors collectively contribute to why awareness of ESG principles does not automatically translate into sustainable investment action. This gap underscores the need to investigate how behavioural finance frameworks can deepen our understanding of sustainable investment adoption.

By synthesizing insights from behavioural finance and sustainable investment research, this paper aims to identify key psychological drivers that influence whether investors transition from sustainability awareness to actual investment behaviour. Through a review of theoretical constructs and empirical evidence, it explores how cognitive and emotional biases affect decision making, and discusses potential behavioural interventions such as choice architecture and bias mitigation strategies to better align investor actions with sustainability aspirations. The ultimate goal is to offer actionable insights for financial advisors, policymakers, and asset managers seeking to encourage behaviourally consistent and sustainability-oriented investment decisions.

2. Literature Review

a. Sustainable Investment and Investor Awareness

Sustainable investing, which integrates environmental, social, and governance (ESG) criteria into investment decisions, has gained substantial traction in recent years due to rising social awareness and regulatory initiatives. Research indicates that while investor awareness of ESG factors is increasing, the translation of this awareness into actual investment behaviour remains limited (Friede, 2015). This phenomenon is often described as the "awareness–action gap", reflecting the discrepancy between expressed sustainability preferences and real financial choices. Scholars argue that mere exposure to ESG information is insufficient; psychological, social, and informational barriers often prevent investors from aligning their portfolios with sustainability objectives (Revelli & Viviani, 2015).

b. Behavioural Biases in Sustainable Investment

Behavioural finance provides a framework to understand why investors fail to act consistently with their sustainability awareness. Cognitive biases such as overconfidence, loss aversion, anchoring, and herding have been identified as critical determinants of investment choices (Kahneman & Tversky & Barberis, 1979, 1998). For example, loss aversion leads investors to prefer familiar assets, perceiving sustainable investments as riskier despite evidence of competitive returns (Benartzi & Thaler, 1995). Similarly, herding behaviour can either promote or deter ESG investments, depending on the perceived behaviour of peers or market sentiment. These findings underscore the psychological complexity behind sustainable investment decisions and demonstrate that cognitive and emotional factors strongly influence the awareness-to-action pathway (Riedl & Smeets, 2017)).

c. Role of Information, Framing, and Social Influences

Another important area in the literature is the impact of information framing and social context on sustainable investment behaviour. ESG information is often complex, heterogeneous, and difficult to interpret, leading investors to rely on heuristics and simplified decision-making rules ((Fatemi, 2015)). Studies show that framing ESG performance in financial or moral terms can differently influence investor responses; moral framing increases positive attitudes, whereas financial framing is more effective in translating awareness into concrete investment decisions ((Riedl & Smeets, 2017). Moreover, social influences such as peer behaviour, corporate reputation, and identity signalling play a significant role in motivating investors toward ESG adoption, highlighting the intersection between psychological factors and social context (Bollen, 2007).

d. Gaps in Existing Literature

While the literature has advanced understanding of behavioural finance and sustainable investment, several gaps remain. Most empirical studies focus on short-term investment decisions or single-country contexts, limiting the generalizability of findings (Eurosif, 2018). Longitudinal studies are scarce, leaving unanswered questions about how behavioural biases evolve over time and across different market conditions. Additionally, there is limited research on the effectiveness of behavioural interventions—such as nudges, choice architecture, or simplified ESG disclosures in closing the awareness-to-action gap. These gaps highlight the need for a systematic review approach to integrate findings and provide a consolidated understanding of the behavioural determinants of sustainable investment.

3. Research Methodology

This study adopts a secondary research methodology based on a systematic review of existing literature to examine how behavioural finance insights explain the gap between sustainability awareness and actual sustainable investment behaviour. Secondary review-based research is particularly appropriate for theory-driven studies, as it allows for the synthesis and critical evaluation of prior empirical and conceptual work without the need for primary data collection. Following established systematic literature review (SLR) protocols, the study integrates findings from behavioural finance and sustainable investment research to identify dominant behavioural patterns, theoretical frameworks, and emerging research trends (Kumar & Goyal & Tranfield et al., 2003).

A structured search strategy was employed to identify relevant peer-reviewed journal articles, review papers, and conceptual studies published between 2000 and 2025. Academic databases such as Scopus, Web of Science, and Google Scholar were consulted using keywords including *behavioural finance*, *sustainable investment*, *ESG investing*, *investor behaviour*, and *cognitive biases*. Inclusion criteria focused on studies that explicitly addressed behavioural factors influencing investment decisions or ESG-related financial behaviour, while non-academic sources, opinion pieces, and unrelated studies were excluded to ensure methodological rigor and relevance (Denyer & Neely, 2004).

Selected studies were screened through title, abstract, and full-text review stages, followed by qualitative content analysis. Key information such as behavioural constructs examined, theoretical approaches, and findings related to sustainable investment decision-making was systematically extracted and categorized into thematic clusters. A narrative synthesis approach was then applied to integrate insights across studies, allowing for comparison, interpretation, and identification of research gaps. This methodological approach enhances conceptual clarity and provides a comprehensive understanding of how behavioural finance mechanisms influence the transition from sustainability awareness to investment action (Kumar et al., 2020).

4. Discussion and Analysis

The findings of this systematic review reveal a consistent and recurring theme across the literature investor awareness of sustainability does not automatically translate into sustainable investment action. While ESG information availability and sustainability consciousness have increased substantially, behavioural finance research demonstrates that investment decisions remain heavily influenced by cognitive biases and emotional responses. Classical finance models, which assume rational evaluation of all available information, fail to fully explain this disconnect. Instead, behavioural frameworks rooted in prospect theory and bounded rationality provide stronger explanatory power for observed investor behaviour (Kahneman & Tversky & Barberis, 1979, 1998).

A dominant insight emerging from the reviewed studies is the role of loss aversion and risk perception in inhibiting sustainable investment adoption. Investors often perceive sustainable assets as riskier or less financially rewarding, despite growing empirical evidence suggesting competitive long-term returns. Loss aversion leads investors to overweight potential short-term losses relative to long-term gains, resulting in resistance to reallocating capital toward ESG-oriented assets (Benartzi & Thaler, 1995). This behavioural tendency is particularly evident among retail investors, who rely more on heuristics when processing complex ESG data and are more sensitive to downside risk than institutional investors.

The review further highlights the significance of heuristics and information framing in shaping sustainable investment decisions. ESG data is often complex, non-standardized, and difficult to interpret, increasing reliance on mental shortcuts such as representativeness and availability heuristics. Studies suggest that when sustainability information is framed in moral or social terms, investors express positive attitudes; however, when required to make actual investment choices, financial framing dominates decision-making (Riedl & Smeets, 2017). This inconsistency underscores a behavioural intention–action gap, where pro-sustainability attitudes fail to materialize into portfolio adjustments.

Another critical insight concerns the influence of social norms and identity-based motivations. Several studies indicate that investors are more likely to engage in sustainable investing when ESG choices align with personal values, social identity, or peer behaviour. Herding effects and social signaling have been shown to amplify ESG investment flows during periods of heightened public attention to sustainability issues (Bollen, 2007)). However, such behaviour may also lead to superficial or trend-driven ESG adoption rather than deep, value-consistent investment strategies. This raises concerns about the durability and authenticity of sustainable investment behaviour driven primarily by social influence.

From a policy and practice perspective, the literature strongly supports the use of behavioural interventions to bridge the awareness–action gap. Tools such as default ESG options, simplified sustainability disclosures, and personalized feedback mechanisms have been found to improve sustainable investment uptake by reducing cognitive effort and bias-driven resistance (Thaler & Sunstein, 2008)). These findings suggest that sustainable finance outcomes can be significantly enhanced not merely through information provision, but through behaviourally informed choice architecture.

Overall, the analysis indicates that sustainable investment behaviour is shaped by a complex interaction of cognition, emotion, values, and context. The systematic review underscores the necessity of integrating behavioural finance principles into sustainable finance strategies, regulatory frameworks, and advisory practices. Addressing psychological barriers is essential for transforming sustainability awareness into consistent and meaningful investment action.

5. Findings

The systematic review reveals that the growing awareness of environmental, social, and governance (ESG) issues among investors has not resulted in a proportionate shift toward sustainable investment behaviour. Across the reviewed literature, a consistent finding is the presence of an awareness–action gap, where investors express positive attitudes toward sustainability but fail to integrate ESG considerations into actual portfolio decisions. Behavioural finance research attributes this gap largely to cognitive biases such as loss aversion, overconfidence, and status quo bias, which discourage deviation from conventional investment strategies despite stated sustainability preferences ((Kahneman & Tversky & Benartzi & Thaler, 1995).

Another key finding is the influence of information complexity and framing on sustainable investment decisions. ESG data is often perceived as difficult to interpret, leading investors to rely on heuristics and simplified decision rules. Studies consistently show that sustainability information framed in purely ethical terms increases awareness, but financial framing is more effective in motivating actual investment behaviour ((Riedl & Smeets, 2017). Additionally, social and contextual factors such as peer influence, social norms, and identity signaling emerge as significant drivers of ESG investment adoption, though these influences may result in short-term or trend-based behaviour rather than long-term commitment (Bollen, 2007).

6. Conclusion

This systematic review concludes that sustainable investment decisions are fundamentally behavioural in nature, shaped by psychological biases, emotional responses, and social influences rather than rational evaluation alone. While investors increasingly recognize the importance of sustainability, behavioural barriers often prevent this awareness from translating into meaningful action. Traditional financial models are therefore insufficient to explain ESG investment behaviour without the integration of behavioural finance perspectives.

The review highlights that addressing the awareness action gap requires more than increased disclosure or education. Behaviourally informed strategies such as simplified ESG metrics, effective framing, and decision-support tools are essential for aligning investor intentions with sustainable financial outcomes. By synthesizing behavioural finance and sustainable investment literature, this study contributes to a deeper understanding of investor psychology and underscores the need for interdisciplinary approaches in advancing sustainable finance.

7. Recommendations

Based on the findings of this systematic review, several key recommendations are proposed:
a. For Policy makers and regulators:

Regulatory frameworks should incorporate behavioural insights by standardizing ESG disclosures and reducing information complexity. Clear, comparable, and concise sustainability metrics can help mitigate cognitive overload and improve investor decision-making (Thaler & Sunstein, 2008).

b. For Financial Institutions and Advisors:

Investment advisors should adopt behaviourally informed advisory practices, using framing techniques that emphasize both long-term financial performance and sustainability impact. Default ESG options and personalized feedback can further encourage sustainable investment choices.

c. For Asset Managers and Product Designers:

Sustainable investment products should be designed with behavioural considerations in mind, including simplified risk communication and transparent impact reporting to reduce perceived uncertainty and loss aversion.

d. For Future Research:

Further studies should focus on longitudinal and cross-cultural analyses to better understand how behavioural biases evolve over time and across different market contexts. Experimental research exploring the effectiveness of behavioural interventions in sustainable investing is also recommended.

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