International Journal of Social Science Research and Review

http://ijssrr.com
editor@ijssrr.com
Volume 9, Issue 2
February, 2026
Pages: 297-319

The Impact of Social and Environmental Practices on Funding Outcomes for Corporate Founders

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http://dx.doi.org/10.47814/ijssrr.v9i2.3227

Abstract

Environmental, Social, and Governance (ESG) considerations have gained increasing importance in shaping financing decisions, particularly for founders seeking access to external capital. This study investigates the impact of the environmental and social dimensions of ESG on the funding received by founders in India by adopting a quantitative research design. Primary data were collected through structured questionnaires administered to 72 founders of small, medium, and large enterprises. The data was analysed using Structural Equation Modelling (SEM) with the Diagonally Weighted Least Squares (DWLS) estimator. The measurement model demonstrated satisfactory sampling adequacy, with a Kaiser–Meyer–Olkin (KMO) value of 0.762 and a significant Bartlett's test of sphericity ($\chi^2 = 599.8$, $p < 0.001$), confirming the suitability of the data for factor analysis. Overall model fit was acceptable to strong, as indicated by a Comparative Fit Index (CFI) of 0.970, Tucker–Lewis Index (TLI) of 0.955, and a Standardized Root Mean Square Residual (SRMR) of 0.067. Additionally, the Root Mean Square Error of Approximation (RMSEA) value of 0.094 suggested potential scope for model refinement. The structural results reveal a positive association between environmental performance and funding while environmental and social dimensions were also strongly interrelated. Overall, the findings suggest that stronger environmental and social ESG practices are associated with improved funding outcomes for founders with environmental practices demonstrating a relatively stronger influence.

Keywords: *ESG; Funding; Founders' perception of ESG; Structural Equation Modelling (SEM); Confirmatory Factor Analysis (CFA)*

Introduction

Environmental, Social, and Governance (ESG) practices are some of the crucial factors that any business should consider in the framework of sustainable development. The relevance of ESG can be seen in its ability to contribute to the increase in corporate value, strengthen brand name, attract investment,

and support responsible investment procedures that are key to long-term success (Zhang, 2023). There is a strong negative correlation between ESG reporting by the Hong Kong listed companies and financing limitations. These limitations are reduced through increased ESG transparency, especially in high-emission companies, making these companies more appealing to investors and credit easier to access (Tian et al., 2025). There is a significant negative correlation between corporate ESG performance and financing constraints, which point out that the introduction of strict ESG practices can mitigate these constraints. This attenuation may take place by mitigating the financial risks, increasing the information transparency, and raising the availability of government green subsidies. Moreover, green innovation increases the impact of the ESG performance on the financing constraints, particularly in economically developed regions of China and in companies that face more restrictive budgetary limitations. Real ESG enhancements are rewarded by capital providers, while the symbolic ones are not (Liao et al., 2025). By improving their ESG practices, companies can overcome the challenges in financing. Enhanced ESG performance will help companies to attract a wider range of investors, less exposure to risk, and favourable market responses, therefore, decreasing their cost of capital. Furthermore, the easing of financing restrictions provides businesses with a high motivation to resort to green innovation (Zhai et al., 2022). The nexus between ESG practices and financial performance in the automotive industry is significantly affected by financial constraints. The higher benefit of a higher ESG score is more pronounced in companies that are limited in terms of finance. A one-point improvement in ESG score is linked to a 1.6 percent change in the market-to-book ratio of resource-constrained automotive companies. This observation highlights the importance of ESG initiatives to financially starved companies because the initiatives boost value creation despite the financial constraints (Dinçergök & Pirgaip, 2025). Improved ESG practice mitigates financing limitations and, in general, privately-owned enterprises will see that reduction stronger than in the case of state-owned enterprises. The informational quality as a mediating factor in the ESG performance affects the corporates financing limits hence enhancing access to financial resources (Hao and Wu, 2024). Green bonds are issued along with the enhanced environmental performance, which increases the quality of loans to banks. In addition, the high governance is associated with reduced costs of funding due to increased investor confidence (Palmieri et al., 2025). Studies indicate that projects that have clear environmental plans have a positive effect on short term funding performance in equity crowdfunding markets especially when they are supported by strong corporate governance systems. However, when environmental orientation is considered with regard to other variables, the positive impact is not significant in terms of statistics. In conjunction with an effective first crowdfunding campaign, environmental orientation has a strong positive influence on long-term performance, which points to the connection between financing and environmental impact (Vismara & Wirtz, 2025). The environmental sustainability orientation (ESO) has a negative impact on the performance of crowdfunding in firms focused on new technology and at the same time, it might enhance the likelihood of the venture capital. The given dual impact reveals the complexity of the interaction between ESO and funding results in the crowdfunding campaign and the search of venture capital ("Environmental Sustainability Orientation, Reward-Based Crowdfunding, and Venture Capital: The Mediating Role of Crowdfunding Performance for New Technology Ventures," 2023). The pressure imposed by the regulatory bodies improves the performance of firms in terms of finance. This kind of environmental orientation makes better access to funds possible and emphasises the significance of transparency in environmental and social responsibility to attain financial resources (Ning & Shen, 2024). The positive influence of environmental sustainability on the willingness to invest in startups and existing enterprises is significant, and it is more pronounced in the case of the former ones. This is consistent with a financial reason as to why the entrepreneur should care about the environment (Voß et al., 2024). Environmental destruction negatively affects financing, but green funding reflects sustainable development. Negative outcomes of environmental degradation reduce the money invested in sustainable projects (Xing et al., 2024). Improved financial performance and possible increase in funding might be the results of the improved corporate social responsibility (CSR) and ESG scores (Coelho et al., 2023). CSR enhances the efficiency of labour-investment, especially in companies that are limited in finance,

which implies indirect improved financing benefits (Yuan et al., 2024). CSR affects the funding of a company as it eases the burden on the firm and thus the firm can divert its funds to other financial resources. The implication of this relationship is that high CSR scores correlate with the high financialization of corporations, which further impact the financial strategy and resource allocation of the firm (Su & Lu, 2023). CSR transparency reduces corporate dependence on trade-credit costly funding. Companies with clear reports on CSR have lower debt prices and increased share liquidity, which increases financial flexibility and less reliance on expensive sources of funds (Hendijani Zadeh et al., 2022). CSR programs strengthen the reputation of the firm, help to lower capital cost, and improve the financial performance and funding prospects at the same time. In addition, CSR strategies enhance stakeholder confidence, reduce financing risks and eventually lead to lower financing costs and increased investment efficiency (AL-Akheli et al., 2025).

Literature Review

A study used a panel regression model to analyse the relationship between the disclosure of environmental, social and governance (ESG) and restrictions on financing based on a dataset of 756 companies listed on the Hong Kong Stock Exchange (HKSE) between 2012 and 2022. The results show that there is a statistically significant negative relationship between the disclosure and ESG and the occurrence of financial distress in Hong Kong-listed enterprises. It is argued that increased disclosures of ESG will alleviate financing constraints, and this will help firms to access investment opportunities and credit. In contrast, companies that have high emission profiles tend to face funding constraints, which can be explained by the fact that it is negatively related to ESG disclosure. ESG transparency proves to be a decisive factor in reducing funding challenges in the high-emission industries (Tian et al., 2025). Another study used generalized method of moments (GMM) in a systematic way to overcome the possible endogeneity issues. Two stage least squares regression method with lagged instrumental variables was used on a large sample of 1,038 A-share listed companies between 2013 to 2023 and provides an analysis of 11,418 observations. Findings indicate that well-performing corporate ESG reduces funding limitations of Chinese companies to a great extent. The paper highlights that it is only material changes in the ESG practices and not superficial ones that will earn the approval of capital providers (Liao et al., 2025). Another paper employs a zero-inflated Poisson regression to examine the relationship between ESG practices and corporate green innovation, based on a sample of 1,577 Chinese manufacturing companies listed. Combining the stakeholder theory with the resource-based view (RBV), the paper explores the impact of ESG initiatives on green innovation and financing constraints as an intermediate. Results indicate that the strengthened ESG practices are a salient force behind improved corporate green innovation, and financing limitations moderate this association and could lower financial obstacles to improving green innovations (Zhai et al., 2022). An analysis based on a global panel dataset from 2008 to 2023 tested the hypothesis of ESG scores and financial performance. The findings suggest that higher ESG scores are positively related to financial performance in the automotive industry, and a 1-point change in ESG score results in an approximate increase in the market-to-book ratio of 1-1.7%. In addition, the paper emphasizes the economic importance of ESG activity, especially when dealing with the companies that are financially constrained, and the critical importance of ESG activities in value creation under different financial circumstances (Dinçergök & Pirgaip, 2025). A previous study examines the correlation between the corporate ESG performance and financing constraints by analysing A-share listed firms in China during the period 2010-2022 and the analysis will be conducted on the variation in the effect that has been experienced on both the private and state-owned enterprises. Findings indicate that the ESG performance lowers the overall financing constraints, and the private enterprises enjoy more benefits of enhanced ESG performance compared to the state-owned counterparts (Hao and Wu, 2024). A paper utilises 1,738 bank-years of data between the years 2009 and 2023 to employ a panel data approach in investigating the connection between green bond issuance and improvement in ESG performance. The

methodology is used to determine the effects of ESG on the financial performance of banks, specifically profitability, cost of funding and quality of loan portfolio. Results obtained show that the issuance of green bonds has a positive effect on quality of the loan portfolio of banks, particularly when there is an improvement in environmental performance. The increase in the awareness of better governance scores correlates with low funding costs under the issuing of green bonds, which are expressions of increased trust and trustworthiness by investors. The research highlights the necessity of the presence of ESG factors in capital market activities among bank managers (Palmieri et al., 2025). Existing literature investigates the financial performance of the companies that are clearly committed to the environment in the framework of the equity crowdfunding markets, using the comparative analysis of the short term and long-term funding performance as a variable based on the environmental orientation and corporate governance mechanisms. Findings demonstrate that companies that have explicit environmental pledges perform better in terms of short-term funding in equity crowdfunding markets and especially where good corporate governance systems exist. Although environmental orientation still has a positive effect on long-term performance, the effect does not have a significant effect without having a successful initial crowdfunding campaign, yet once combined with a successful initial crowdfunding campaign, the positive effect of environmental orientation on long-run performance is highly significant (Vismara & Wirtz, 2025). Another paper explores how environmental sustainability orientation (ESO) affects the performance of crowdfunding and venture capital uptake by examining a new hardware venture on Kickstarter. The results show that ESO has a negative impact on crowdfunding performance, however, it has a positive impact on the receipt of venture capital ("Environmental Sustainability Orientation, Reward-Based Crowdfunding, and Venture Capital: The Mediating Role of Crowdfunding Performance for New Technology Ventures," 2023). A paper by Voß et al (2024) carries out an interview of the private investors and compares the levels to which the impact of the environment influences their behaviour of investing in startups or investing in established firms. Findings indicate the positive association between environmental sustainability and willingness to invest in both types, and this relationship is stronger in the case of startups compared to established companies. Another study utilises a system-GMM method for analysis and uses various proxies to measure green finance. It is concluded that green funding has a positive effect on sustainable development, and the environmental degradation has a negative effect on the level of funding (Xing et al., 2024). Existing literature performs a content analysis and systematic review to identify how corporate social responsibility (CSR) affects corporate financial performance and concludes that CSR initiatives can increase the ESG scores, thus improving the financial performance (Coelho et al., 2023). An empirical study explored the effects of corporate social responsibility (CSR) on the efficiency of labour investment with references to a sample of listed companies in China. The statistical significance of the CSR effects on the labour investment efficiency is determined using cross-sectional tests, which findings were found to be robust through a 2 stage least squares (2SLS) regression method. The findings show that CSR has a positive impact on labour investment efficiency in the Chinese listed firms, where a stronger impact may be found in privately owned firms and those that face financing limitations (Yuan et al., 2024). In an existing paper, robustness and endogeneity tests are used, and the results indicate that companies with high CSR scores are characterized by increased corporate financialization (Su & Lu, 2023). Another article uses a set of 2012-2019 S&P 500 companies to analyse, with ordinary least squares (OLS) estimators. The researchers conclude that the extent of CSR transparency is adversely correlated with the use of costly trade credit, and more so, companies with high levels of CSR transparency have low costs of debt and increased share market liquidity (Hendijani Zadeh et al., 2022). The connection between CSR and capital cost is studied using a systematic literature review consisting of 104 studies, registered in the Scopus database. It is concluded that CSR improves the financial results and minimizes capital expenditure and proactive CSR program strengthens the confidence of stakeholders and minimizes risk (AL-Akheli et al., 2025).

Methodology

This study adopted a quantitative research design to explore the impact of environmental and social aspects of ESG on funding received by founders. The study was conducted in various states across India. The target population included founders of small, medium, and large enterprises and a sample of 72 was selected based on convenience sampling. Primary data were gathered using structured questionnaires, in which the constructs of funding (FND), environmental (ENV) and social (SOC) were measured by a set of observed indicators using categorical Likert-scale items. The construct of funding (FND) was evaluated using four indicators, two of which were related to social aspects of ESG and the other two to the environmental components of ESG. Five items each measured the environmental (ENV) and the social (SOC) construct. A pilot survey was conducted on 30 founders to determine the reliability and internal consistency of the survey, with a Cronbach alpha value of 0.83, which is above the standard level of scale reliability. The pilot survey also provided feedback to help in refining questions and improving the survey. To ascertain validity and reliability of the research instruments, Kaiser-Meyer-Olkin (KMO) and Bartlett's test of sphericity, confirmatory factor analysis (CFA), average variance extracted (AVE), heterotrait-monotrait (HTMT) ratios, and multiple model fit indices were used to show satisfactory convergent and discriminant validity. The data obtained underwent structural equation modelling (SEM) using the Diagonally Weighted Least Squares (DWLS) estimator, and techniques such as confirmatory factor analysis, model fit evaluation (CFI, TLI, RMSEA, SRMR) and covariance analysis were applied to interpret the data quantitatively using JASP 0.95.4. Ethical considerations such as informed consent, confidentiality, anonymity, and voluntary participation were strictly observed. Despite the limitations of the study such as sensitivity to sample size and the use of self-reported data, the adopted methodology was suitable to support the research objectives and provide strong empirical analysis.

Analysis

The study explores the relationships between environmental and social ESG practices and funding performance of corporate founders, through the use of measurement confirmatory factor analysis and structural equation modelling to estimate the strength and the direction of relationships between latent constructs.

Table 1

Chi-square test

Model	X^2	df	p
Baseline model	983.288	66	
Factor model	72.955	45	.005

Note. The estimator is DWLS. The test statistic is scaled.shifted. The standard error method is robust.sem.

The chi-square (X^2) goodness-of-fit test was performed to assess how well the hypothesized factor model aligns with the observed data. The baseline model (which assumes that the variables had no relationship) yielded a chi-square value of 983.288 with 66 degrees of freedom. On the other hand, the specified factor model had a chi-square value of 72.955 with 45 degrees of freedom and a p value of 0.005. The model estimation was conducted using the Diagonally Weighted Least Squares (DWLS) estimator. The test-statistic was scaled and shifted with robust standard errors using the Structure Equation Modelling (SEM) method. The chi-square value was found to be significant ($p < .05$) suggesting that the model did not completely replicate the observed covariance matrix. Since chi-square statistic is extremely sensitive to the model complexity and sample size. Therefore, a significant result does not always indicate a poor model fit (Peugh et al., 2023). The chi-square test is usually conducted with other

fit indices such as SRMR, RMSEA, TLI and CFI to provide a better evaluation of the model's adequacy. It is worth noting that SO_ID1 and SO_ID2 were omitted because of less than sufficient additional fit-measures that are mentioned in table 2.

Table 2

Additional fit measures

Fit indices

Index	Value
Comparative Fit Index (CFI)	0.970
Tucker-Lewis Index (TLI)	0.955
Bentler-Bonett Non-normed Fit Index (NNFI)	0.955
Bentler-Bonett Normed Fit Index (NFI)	0.926
Parsimony Normed Fit Index (PNFI)	0.671
Bollen's Relative Fit Index (RFI)	0.891
Bollen's Incremental Fit Index (IFI)	0.970
Relative Noncentrality Index (RNI)	0.970

Note. Except for the PNFI, the fit indices are scaled because of categorical variables in the data.

The table shown above displays that the Comparative Fit Index (CFI) value was 0.970 which exceeds the conventional cutoff value of 0.95 (Kim & An, 2025), showing an excellent fit between the observed data and the hypothesized model. The Tucker–Lewis Index (TLI) value was observed to be 0.955 indicating that the model fits the data in a suitable manner. The Bentler-Bonett Non-normed Fit Index (NNFI) value was 0.955 which indicates an excellent model fit. However, the value of the Bentler–Bonett Normed Fit Index (NFI) was 0.926, which is slightly lower than the ideal threshold of 0.95 but nevertheless represents an acceptable model fit. The Bollen's Relative Fit Index (RFI) value was observed to be 0.891 which remains within an acceptable range. The Bollen's Incremental Fit Index (IFI) and Relative Noncentrality Index (RNI) both had values of 0.970, which further supports the conclusion that the model displays an excellent fit in comparison to the null model. The Parsimony Normed Fit Index (PNFI) value was 0.671 which indicates that the model maintained a suitable balance between model simplicity and goodness of fit. While PNFI values are usually lower than absolute fit indices, the above value suggests that the model is not overfitted and achieves a acceptable level of parsimony.

Table 3

Other fit measures

Metric	Value
Root mean square error of approximation (RMSEA)	0.094
RMSEA 90% CI lower bound	0.051
RMSEA 90% CI upper bound	0.132
RMSEA p-value	0.046
Standardized root mean square residual (SRMR)	0.067
Hoelter's critical N (α = .05)	110.595
Hoelter's critical N (α = .01)	125.349
Goodness of fit index (GFI)	0.989
McDonald fit index (MFI)	1.036
Expected cross validation index (ECVI)	

Note. The RMSEA results are scaled because of categorical variables in the data.

Several established indices were used to assess the appropriateness of the model. The root mean square error of approximation (RMSEA) reported was 0.094 (90% confidence interval: 0.051–0.132) with p-value 0.046 thus indicating that the null hypothesis of close fit (RMSEA not more than 0.05) was rejected at the 0.05 significance level. Even though the lower edge of the confidence limit falls under the acceptable range, the point estimate is nearly approaching the level which is usually regarded as a sign of poor fit (more than 0.08). Such RMSEA estimates have been scaled to include the use of categorical variables which is a methodological manipulation that can overstate RMSEA values. The standardized root mean square residual (SRMR) was 0.067 that is lower than the traditional threshold of 0.08 that is acceptable residual-based fit. Besides, the goodness-of-fit index (GPI; 0.989) and the incremental fit index (MFI; 1.036) are high in regard to absolute and incremental fit, surpassing the levels that are typically recommended in the literature. The critical N values of Hoelter were 110.60 with a = 0.05 and 125.35 with a= 0.01 indicating the approximate size of a sample that could be used to achieve a non-significant statistic of a chi-square test. Although these values are slightly below another popular criterion of 200 that is often given as a strong model stability benchmark, this does not indicate that there is significant instability in the estimation. Comprehensively, the indices show a mixed though fairly satisfactory model fit. The RMSEA suggests that the model could be further refined but, the SRMR, GFI, and MFI, taken together, give strong evidence regarding the acceptable-strong fit.

Table 4

Kaiser-Meyer-Olkin (KMO) test

Indicator	MSA
EN_D1	0.803
EN_D2	0.779
SO_D1	0.668
SO_D2	0.761
EN_ID1	0.815
EN_ID2	0.832
EN_ID3	0.719
EN_ID4	0.783

Kaiser-Meyer-Olkin (KMO) test

Indicator	MSA
EN_ID5	0.870
SO_ID3	0.696
SO_ID4	0.874
SO_ID5	0.605
Overall	0.762

The Kaiser-Meyer-Olkin (KMO) test established that the data qualified factor analytic tests with a total KMO coefficient of 0.762, which is a testimony to an acceptable level of sampling adequacy. The majority of individual indicators were found to have the MSA value between the acceptable and strong levels; the adequacy of such indicators as EN_D1, EN_ID1, EN_ID2, and EN_ID5 was very high, but items such as SO_D1, SO_ID3, and SO_ID5 were close to the lower but still adequate level of 0.60.

Table 5

Bartlett's test of sphericity

X^2	df	p
599.8	66	< .001

Bartlett test of sphericity was found significant, X^2 (66) = 599.8, $p < .001$, which means that the correlation matrix is not an identity matrix and that the data can be subjected to factor analysis.

Table 6

R-Squared

	R^2
EN_D1	0.484
EN_D2	0.491
SO_D1	0.686
SO_D2	0.866
EN_ID1	0.538
EN_ID2	0.296
EN_ID3	0.788
EN_ID4	0.801
EN_ID5	0.495
SO_ID3	0.584
SO_ID4	0.804
SO_ID5	0.430

The R-squared values show the percentage of the variance of each indicator is explained through its latent construct. The explanatory power of most indicators is moderate to high with values like SO_D2 (0.866), EN_ID3 (0.788), EN_ID4 (0.801) and SO_ID4 (0.804) exhibiting strong construct -indicator relationships. Some of the indicators such as EN_D1 (0.484), EN_D2 (0.491) and EN_ID5 (0.495) show

moderate values of the explained variance, and others, EN_ID2 (0.296) and SO_ID5 (0.430) have lower values indicating less strong but still acceptable relationships. In general, the direction of R-squared values supports the sufficiency of the measurement model, most indicators explain large proportion of the variance that can be attributed to other factors.

Parameter estimates

Table 7

Factor loadings

						95% Confidence Interval	
Factor	**Indicator**	**Estimate**	**Std. Error**	**z-value**	**p**	**Lower**	**Upper**
FND	EN_D1	1.000	0.000			1.000	1.000
	EN_D2	1.007	0.134	7.539	< .001	0.745	1.269
	SO_D1	1.190	0.189	6.308	< .001	0.821	1.560
	SO_D2	1.337	0.192	6.967	< .001	0.961	1.714
ENV	EN_ID1	1.000	0.000			1.000	1.000
	EN_ID2	0.743	0.104	7.117	< .001	0.538	0.947
	EN_ID3	1.211	0.158	7.656	< .001	0.901	1.521
	EN_ID4	1.221	0.156	7.813	< .001	0.914	1.527
	EN_ID5	0.960	0.140	6.863	< .001	0.686	1.234
SOC	SO_ID3	1.000	0.000			1.000	1.000
	SO_ID4	1.173	0.119	9.827	< .001	0.939	1.407
	SO_ID5	0.858	0.120	7.127	< .001	0.622	1.094

The factor loading estimates show that all the indicators load considerably on their respective latent constructs as shown by p-values lower than .001 and confidence intervals not including zero. As far as the FND construct is concerned, the loading varies between 1.000 and 1.337, which emphasizes strong relationships between the indicators (EN_D1, EN_D2, SO_D1, SO_D2) and the latent factor. In the case of the ENV factor, the values of the loadings reach 0.743 to 1.221, the loadings in EN_ID3 and EN_ID4 are very high. Similarly, SOC construct is affirmed with loadings, which lie between 0.858 and 1.173. The combination of the magnitude, statistical significance and confidence intervals of these loadings support the convergent validity of the measurement model thus showing that each indicator set is a true reflection of its latent construct.

Table 8

Factor variances

					95% Confidence Interval	
Factor	**Estimate**	**Std. Error**	**z-value**	**p**	**Lower**	**Upper**
FND	0.484	0.109	4.448	< .001	0.271	0.698
ENV	0.538	0.130	4.148	< .001	0.284	0.792
SOC	0.584	0.101	5.796	< .001	0.386	0.781

The table gives estimates of the factor variances of three latent constructs, FND, ENV, and SOC, standard errors, z-values, p-values and 95% confidence intervals. The three factors have statistically significant estimates of variance seen by large z-values (20.148 to 5.796) and p-values of less than .001. It means that every factor has a significant portion of variation and can be regarded as a separate latent dimension in the measurement model.

FND has a variance estimate of 0.484 (SE = 0.109), and its confidence interval is 0.271 to 0.698, which states that there is moderate variability in this construct. ENV is slightly greater with a variance estimate of 0.538 (SE = 0.130) and a confidence interval of 0.284 to 0.792 and has a similar but more extended range of variability. SOC has the largest variance of the three (estimate = 0.584, SE = 0.101) and the confidence interval (0.386 to 0.781) also supports the strength of the variability. The fact that the confidence interval is always small and positive in all the factors further gives credibility to the variance estimates and also indicates that the measurement structure used is satisfactory.

Table 9

Factor Covariances

							95% Confidence Interval	
			Estimate	Std. Error	z-value	p	Lower	Upper
FND	⇔	ENV	0.395	0.081	4.865	< .001	0.236	0.554
FND	⇔	SOC	0.265	0.080	3.337	< .001	0.110	0.421
ENV	⇔	SOC	0.460	0.088	5.232	< .001	0.288	0.633

The findings of the covariance results suggest that there are statistically significant correlations between all the three latent factors, FND, ENV, and SOC. All the covariance estimates are positive, and the z-values are greater than the traditional meaningful level of significance and the p-values are lower than .001, which supports the claim that the constructs have a significant and positive relationship in the model. ENV and SOC have the highest covariance (estimate = 0.460, SE = 0.088), and the 95% confidence interval (0.288 to 0.633). This implies that there is a high level of common variability between environmental and social variables and thus, the increment of one construct is moderately related to the increment on the other. FND and ENV also have a significant covariance (estimate = 0.395, SE = 0.081) with a confidence interval of 0.236 to 0.554, which is a strong positive relationship between the foundational and environmental dimensions. Comparatively, FND and SOC relationship, although statistically significant, is less strong (estimate = 0.265, SE = 0.080) with a confidence interval ranging between 0.110 to 0.421 indicating a less impressive but reliable relation between the two constructs.

Table 10

Residual variances

					95% Confidence Interval	
Indicator	Estimate	Std. Error	z-value	p	Lower	Upper
EN_D1	0.516	0.000			0.516	0.516
EN_D2	0.509	0.000			0.509	0.509
SO_D1	0.314	0.000			0.314	0.314
SO_D2	0.134	0.000			0.134	0.134
EN_ID1	0.462	0.000			0.462	0.462

Residual variances

					95% Confidence Interval	
Indicator	**Estimate**	**Std. Error**	**z-value**	**p**	**Lower**	**Upper**
EN_ID2	0.704	0.000			0.704	0.704
EN_ID3	0.212	0.000			0.212	0.212
EN_ID4	0.199	0.000			0.199	0.199
EN_ID5	0.505	0.000			0.505	0.505
SO_ID3	0.416	0.000			0.416	0.416
SO_ID4	0.196	0.000			0.196	0.196
SO_ID5	0.570	0.000			0.570	0.570

The estimates of the residual variance show how much of the observed indicators are not accounted by their latent indicators. There are fixed confidence intervals on all of the values, and this indicates limited or standardized reporting of the parameters. The EN_D1 (0.516) and EN_D2 (0.509) are moderate values of unexplained variance across the environmental indicators, whereas the EN_ID series spreads more. EN_ID2 (0.704) has the largest residual variance meaning that it has a relatively weak representation of the latent construct, EN_ID3 (0.212) and EN_ID4 (0.199) show a strong factor alignment because of their low residual values. EN_ID1 (0.462) and EN_ID5 (0.505) are in the middle range, which is not too strong, but it indicates that the factor can explain them. The same is true of social indicators. SO_D1 (0.314) is strongly factor associated with SO_D2 (0.134), and SO_D2 is modelled well. Whereas SO_ID3 (0.416) and SO_ID5 (0.570) have moderate values of residuals, which implies relatively weak loadings. SO_ID4 (0.196), on the contrary, has a high correspondence with its latent factor. In general, even though most indicators work satisfactorily, items such as EN_ID2 and SO_ID5 can be considered more thoroughly in terms of measurement strength compared to other items.

Table 11

Residual covariances

							95% Confidence Interval	
			Estimate	**Std. Error**	**z-value**	**p**	**Lower**	**Upper**
EN_D1	⇔	EN_D2	0.265	0.094	2.816	.005	0.080	0.449
SO_D1	⇔	SO_D2	-0.111	0.129	-0.856	.392	-0.364	0.143
EN_ID1	⇔	EN_ID2	-0.067	0.056	-1.192	.233	-0.177	0.043
EN_ID3	⇔	EN_ID4	0.002	0.056	0.042	.967	-0.108	0.113
EN_ID5	⇔	SO_ID3	-0.142	0.055	-2.570	.010	-0.250	-0.034
SO_ID4	⇔	SO_ID5	0.077	0.057	1.348	.178	-0.035	0.189

The table shows residual covariances between the pairs of indicators of choice, and it represents the shared variance that cannot be explained by the latent factors. The majority of the pairs report non-significant covariances with p-values over 0.05 and confidence intervals including zero implying that there is little overlap in the error terms. There is a high positive residual covariance between EN_D1 and EN_D2 with an estimate of 0.265 and a p-value of 0.005, and this could potentially be because of the two

items having a similar wording or content they are not explained by the factor. Likewise, the covariance between SO_ID3 and EN_ID5 is significant and has negative value with an estimate of 0.142 and p-value of 0.010, which means that there can be opposite shifts in the unexplained variance of these indicators. Other covariance estimates such as SO_D1 SO_D2, EN_ID1 EN_ID2, EN_ID3 EN_ID4, SO_ID4 SO_ID5 are not significant ($p > 0.05$), which means that there is very little or no correlated error between these pairs of items. This indicates that, on balance, the majority of indicators do not have systematic residual correlation, which upholds a discriminant structure of the measurement model.

Table 12

Thresholds

						95% Confidence Interval	
Indicator	**Threshold**	**Estimate**	**Std. Error**	**z-value**	**p**	**Lower**	**Upper**
EN_D1	t1	-1.593	0.242	-6.572	4.979×10^{-11}	-2.068	-1.118
	t2	-0.355	0.152	-2.336	0.020	-0.654	-0.057
	t3	1.383	0.214	6.464	1.019×10^{-10}	0.964	1.802
EN_D2	t1	-1.383	0.214	-6.464	1.019×10^{-10}	-1.802	-0.964
	t2	-0.105	0.149	-0.702	0.483	-0.397	0.187
	t3	1.593	0.242	6.572	4.979×10^{-11}	1.118	2.068
SO_D1	t1	-1.298	0.205	-6.344	2.232×10^{-10}	-1.698	-0.897
	t2	-0.355	0.152	-2.336	0.020	-0.654	-0.057
	t3	1.298	0.205	6.344	2.232×10^{-10}	0.897	1.698
SO_D2	t1	-1.732	0.266	-6.504	7.807×10^{-11}	-2.253	-1.210
	t2	-0.508	0.156	-3.261	0.001	-0.814	-0.203
	t3	1.085	0.185	5.854	4.799×10^{-9}	0.722	1.449
EN_ID1	t1	-0.719	0.164	-4.394	1.111×10^{-5}	-1.039	-0.398
	t2	1.025	0.181	5.664	1.481×10^{-8}	0.670	1.379
EN_ID2	t1	-2.200	0.392	-5.615	1.964×10^{-8}	-2.968	-1.432
	t2	-1.150	0.191	-6.033	1.606×10^{-9}	-1.524	-0.777
	t3	0.282	0.151	1.870	0.061	-0.014	0.578
	t4	1.915	0.306	6.265	3.719×10^{-10}	1.316	2.513
EN_ID3	t1	-0.967	0.177	-5.465	4.628×10^{-8}	-1.314	-0.620
	t2	-0.140	0.149	-0.936	0.349	-0.432	0.153
	t3	1.593	0.242	6.572	4.979×10^{-11}	1.118	2.068
EN_ID4	t1	-2.200	0.392	-5.615	1.964×10^{-8}	-2.968	-1.432

Thresholds

Indicator	Threshold	Estimate	Std. Error	z-value	p	95% Confidence Interval	
						Lower	Upper
	t2	-0.913	0.174	-5.260	1.443×10^{-7}	-1.254	-0.573
	t3	-0.140	0.149	-0.936	0.349	-0.432	0.153
	t4	1.085	0.185	5.854	4.799×10^{-9}	0.722	1.449
EN_ID5	t1	-2.200	0.392	-5.615	1.964×10^{-8}	-2.968	-1.432
	t2	-1.298	0.205	-6.344	2.232×10^{-10}	-1.698	-0.897
	t3	-0.393	0.153	-2.568	0.010	-0.693	-0.093
	t4	1.221	0.197	6.198	5.702×10^{-10}	0.835	1.607
SO_ID3	t1	-2.200	0.392	-5.615	1.964×10^{-8}	-2.968	-1.432
	t2	-1.383	0.214	-6.464	1.019×10^{-10}	-1.802	-0.964
	t3	-0.140	0.149	-0.936	0.349	-0.432	0.153
	t4	1.025	0.181	5.664	1.481×10^{-8}	0.670	1.379
SO_ID4	t1	-1.593	0.242	-6.572	4.979×10^{-11}	-2.068	-1.118
	t2	-0.246	0.150	-1.637	0.102	-0.541	0.049
	t3	1.298	0.205	6.344	2.232×10^{-10}	0.897	1.698
SO_ID5	t1	-1.915	0.306	-6.265	3.719×10^{-10}	-2.513	-1.316
	t2	-1.298	0.205	-6.344	2.232×10^{-10}	-1.698	-0.897
	t3	-0.035	0.149	-0.234	0.815	-0.326	0.257
	t4	1.150	0.191	6.033	1.606×10^{-9}	0.777	1.524

The threshold estimates show the points at which the respondents change their response categories. The majority of the thresholds are statistically significant ($p < 0.05$), which proves precision in category separation. There are indicators which with the help of which three well-spaced thresholds were obtained, the negative values are converted into positive values, which are indicative of the fact that the items discern well-lower, middle and higher levels of the latent trait. The indicators such as EN_ID2, EN_ID4, EN_ID5, SO_ID3, and SO_ID5 consist of four thresholds, which indicate finer discrimination levels of response levels. Although most thresholds are significant, some of the indicators have non-significant mid-category borders (e.g., EN_D2 t2; EN_ID3 t2; SO_ID4 t2; SO_ID5 t3), which are represented by the confidence intervals that overlap with zero. This can imply that there is some lack of discrimination between some of the intermediate responses to these items. It should be noted though that the first and last thresholds of these indicators are ridiculously important and this supports the ability of these indicators to differentiate the respondents on the lower and upper ends of the trait. All in all, the threshold structure shows that the majority of indicators have effective category functioning, which contributes to the quality of measurement of the scale as well as helps to identify certain response points where the difference between categories can be weak.

Table 13

Implied covariance matrix

EN_D 1	EN_D 2	SO_D 1	SO_D 2	EN_I D1	EN_I D2	EN_I D3	EN_I D4	EN_I D5	SO_I D3	SO_I D4	SO_I D5
1.00											
0.75	1.00										
0.58	0.58	1.00									
0.65	0.65	0.66	1.00								
0.40	0.40	0.40	0.53	1.00							
0.29	0.30	0.35	0.39	0.33	1.00						
0.48	0.48	0.57	0.64	0.65	0.48	1.00					
0.48	0.49	0.57	0.64	0.66	0.49	0.80	1.00				
0.38	0.38	0.45	0.51	0.52	0.38	0.63	0.63	1.00			
0.27	0.27	0.32	0.36	0.46	0.34	0.56	0.56	0.30	1.00		
0.31	0.31	0.37	0.42	0.54	0.40	0.65	0.66	0.52	0.69	1.00	
0.23	0.23	0.27	0.31	0.40	0.29	0.48	0.48	0.38	0.50	0.67	1.00

The implicated covariance conveys interrelationships among the observed indicators, which have been approximated by the model. All variables are positively correlated, which means that the higher the score on one indicator, the higher the score on others, and this results in the support of coherent latent structure. Higher covariance patterns are observed between indicators that are likely to be loading on the same or similar latent constructs. To illustrate, the covariance of EN_D1 and EN_D2 (0.75) is significant (which means it shares a lot of variance) and similar strong relationships can be noted between EN_ID3 and EN_ID4 (0.80) and SO_ID3 and SO_ID4 (0.69). These empirical values indicate conceptual consistency and uniformity in response patterns in those item clusters. Moderate covariances can be observed between constructs that are conceptually similar at the environmental and social level (e.g., EN_ID5 and SO_ID4 = 0.52; EN_ID3 and SO_ID3 = 0.56). Thus, reduced covariances (such as EN_D1 and SO_ID5 = 0.23) imply that links between more delimiting item sets are lower, but nonetheless positively inclusive of each other, and so in favour of discriminant separation without destroying any overall coherence within measurement system. On the whole, the matrix depicts that there is a strong internal connectivity among indicators, and covariances within factors are stronger and cross-factor relationships moderate, which is consistent with the assumed multidimensional model.

Table 14

Average variance extracted

Factor	AVE
FND	0.632
ENV	0.584
SOC	0.606

The values of the Average Variance Extracted (AVE) prove that the convergent validity of all three constructs is satisfactory. FND has the highest AVE of 0.632, followed by SOC of 0.606 and ENV has 0.584. Since all the AVEs are greater than the suggested level of 0.50, the greater part of the variance in the indicators is covered by their latent constructs. Collectively, these findings support the fact that the indicators are reliable measures of the underlying factors and much needed to indicate the adequacy of the measurement model.

Table 15

Heterotrait-monotrait ratio

FND	ENV	SOC
1.000		
0.732	1.000	
0.470	0.676	1.000

The values of Heterotrait-Monotrait ratio (HTMT) between the constructs show that there is sufficient discriminant validity. The correlations that are observed, FNDENV = 0.732, FNDSOC = 0.470 and ENVSOC = 0.676, are less than the recommended cutoff of 0.85 and also less than the more relaxed cutoff of 0.90. These results indicate that the constructs are different enough, which means that each dimension is used to measure a different conceptual dimension in the model.

Table 16

Residual covariance matrix

EN_ D1	EN_ D2	SO_ D1	SO_ D2	EN_I D1	EN_I D2	EN_I D3	EN_I D4	EN_I D5	SO_I D3	SO_I D4	SO_I D5
< 0.0											
< 0.0	< 0.0										
.076	.070	< 0.0									
< 0.0	< 0.0	< 0.0	< 0.0								
.012	< 0.0	.049	< 0.0	< 0.0							
.038	.055	< 0.0	< 0.0	< 0.0	< 0.0						
.028	.067	< 0.0	.038	< 0.0	.118	< 0.0					
< 0.0	< 0.0	< 0.0	< 0.0	< 0.0	.033	< 0.0	< 0.0				
.076	< 0.0	< 0.0	.086	< 0.0	.002	< 0.0	< 0.0	< 0.0			
.044	.054	.100	< 0.0	.185	< 0.0	< 0.0	< 0.0	< 0.0	< 0.0		
< 0.0	< 0.0	< 0.0	.011	.095	< 0.0	< 0.0	.060	< 0.0	< 0.0	< 0.0	
< 0.0	.008	< 0.0	.098	< 0.0	< 0.0	< 0.0	.101	.010	.019	< 0.0	< 0.0

The covariance matrix of the residuals shows that most of the covariances of the indicators among the remaining indicators are zero or very low. This implies that, the latent constructs explain a larger proportion of shared variance among items thus giving a well-specified measurement model. The few residual values are in the moderate range (roughly 0.076 to 0.118), which means that there are some pairs of items which have an extra variance that could not be fully explained by the model. These values are however very modest and do not indicate any high level of misspecification. Overall, the matrix is a good indication of a good local model fit. The fact that the near-zero values are predominant indicates that the indicators respond as expected in their respective constructs and the few slightly high values only indicate slight overlaps as opposed to structural issues.

Modification Indices

Table 17

Cross-loadings

			Mod. Ind.	EPC
ENV	→	SO_D2	4.315	-0.770
SOC	→	EN_ID1	3.915	-0.592

The modification indices indicate the possibility of two cross-loadings, the ENV to SO_D2 (MI = 4.315, EPC = -0.770) and SOC to EN_ID1 (MI = 3.915, EPC = -0.592). The values suggest that the permissibility of these cross-loadings may indeed lead to some small increment to model fit, but these effects are moderate rather than significant enough to warrant a modification of the model unless they are highly theoretically motivated. Since the model has shown good reliability, convergent and discriminant validity in the previous sections, it would be reasonable to retain the present factor structure. The proposed cross-loadings can also be considered as overlapping content issues across environmental dimension and social dimension as opposed to misspecification.

Table 18

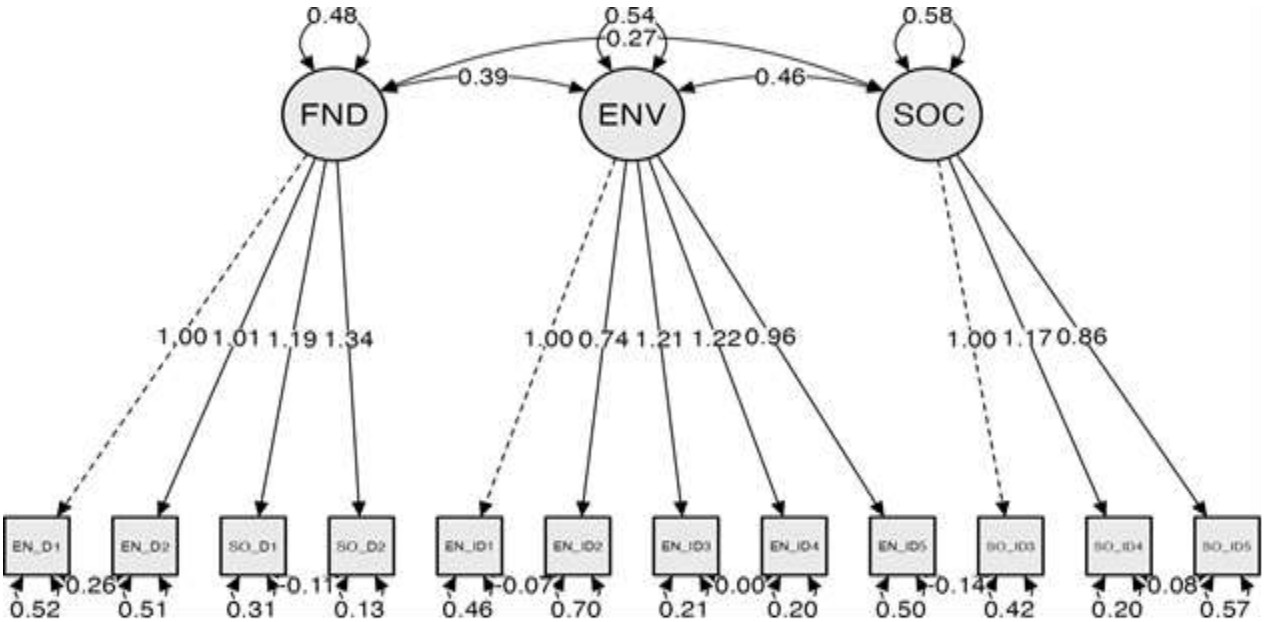
Residual covariances

			Mod. Ind.	EPC
EN_ID2	⇔	SO_ID5	8.552	0.272
EN_ID1	⇔	SO_ID3	5.389	-0.244
EN_ID2	⇔	EN_ID3	4.207	-0.173

The modification indices found three pairs of indicators that had significant covariance after the residual, but not severe. The highest value of MI = 8.552 was associated with the correlation of EN_ID2 and SO_ID5 and their association is moderate in nature; the fact that the estimated parameter change (EPC = 0.272) is positive, means the residual association is positive. Two other modification indices, MI = 5.389 of EN_ID1 SO_ID3 and MI = 4.207 of EN_ID2 EN_ID3 were less significant and indicate only a small amount of unexplained covariance, and the negative EPCs of these indices have slight negative residual correlations. Notably, all modification indices are less than the generally used value of 10, which means that they do not indicate critical model misspecification.

Plots

Model plot



The structural equation model demonstrates the linkage between three latent constructs, namely Funding (FND), Environmental (ENV), and Social (SOC) with their observed indicators. The loading of factor indicates that all the constructs are measured consistently, and the majority of the indicators exhibit moderate to high loadings. Despite the few loadings being slightly above 1.0, this may happen in standardized solutions and indicates a high degree of shared variance of indicators. The error variances of the variables that are used to measure the latent variables (FND = 0.48 and ENV = 0.54 and SOC = 0.58) suggest that though the indicators used in each construct explain a significant portion of the variance, some unexplained variance is still present which is common with complex social models.

The structural paths show that there are positive relationships between the three constructs. FND and ENV are moderately associated (0.39), whereas the relationship between ENV and SOC is a bit greater (0.46), which proves that environmental factors are central to connecting foundational and social dimensions. The correlations confirm the premise that both environment and social conditions are tightly intertwined and both are significantly associated with underlying factors. In general, the model represents consistent measurement quality and promotes theoretical construct on the basis of which the foundational, environmental, and social dimensions are interdependent in a larger mechanism.

The observed indicators are also considered to have a residual value (e.g., 0.52, 0.51, 0.31) which refers to the amount of variance in a given indicator not explained by the latent construct. As an example, a residual of 0.52 means that 52 percent of the variation in the given indicator can be explained by an error in measurement or other factors outside of the model, and the rest of this variation is explained by the latent construct.

Conclusion

This paper has analysed how environmental and social aspects of ESG practices affect the funding on founders in India. Using a quantitative research design and structural equation modelling, the results show that environmental and social performance have a positive relationship with funding, although the impact of environmental practices is relatively higher. The degree of interdependence between the environmental and social constructs also suggests that the ESG dimensions act in a complementary way when forming the funding perceptions. The findings indicate that founders that incorporate sustainable and socially responsible approaches in their business models can be more appealing to investors and financial institutions. Policy-wise, the results can be used to create ESG-based funding schemes, such as preferential lending principles, specific grants, and uniformed ESG reporting principles aimed at small and medium-sized enterprises. These measures may help minimize information asymmetry and increase the use of sustainable practices amongst founders. Although, the small sample size and the utilization of self-reported data limit the study since it might undermine the external validity of the results. The applied methodology has been appropriate in covering the research objectives and produced strong empirical results. Future studies have an opportunity to expand on this study by including more diverse and larger samples, longitudinal, governance variables, and comparative studies across type of funding or regions.

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Appendix

Questionnaire on Founders' Perceptions of ESG Funding and Compliance

Confidentiality and Consent:

Thank you for taking the time to participate in this research study. The purpose of this survey is to understand founders' perceptions of how environmental, social, and governance (ESG) compliance influences funding opportunities.

Your responses will be kept **strictly confidential**. The survey does not require your company's name. All responses will be reported in aggregate form only, and no individual or company will be identified in any publication or presentation.

Section A: Demographics

1.) What is your age?
   a.) <30
   b.) 30-39
   c.) 40-49
   d.) 50+
2.) What is your gender?
   a.) Male

b.) Female
c.) Other

3.) What is your highest educational qualification?
a.) High School
b.) Bachelor's degree
c.) Master's degree
d.) Doctorate/Professional degree

4.) Which of the following best describes your company's primary industry sector? (Please select one)
☐ Manufacturing (e.g., industrial goods, consumer products)
☐ Services (e.g., consulting, hospitality, education)
☐ Information Technology / Software / Digital services
☐ Energy & Utilities (e.g., power, renewables, oil & gas)
☐ Finance & Insurance (e.g., banking, investment, fintech)
☐ Agriculture & Food (e.g., farming, food processing)
☐ Healthcare & Life Sciences
☐ Transportation & Logistics
☐ Other (please specify): _____

5.) What year was your company founded?

6.) How many full-time employees does your company currently have?
a.) 1-9
b.) 10-49
c.) 50-249
d.) 250+

7.) What is the approximate annual revenue (last fiscal year) of your company?
a.) < INR 5 crore
b.) INR 5-75 crore
c.) INR 75-250 crore
d.) INR 75-250 crore

8.) Is your company publicly listed?
a.) Yes
b.) No

9.) Has your company received external funding (VC/PE/Bank loan/ Grant)
a.) Yes
b.) No

Section B: Perceptions Related to Funding Activities

1.) Investors are more likely to provide funding to firms with strong environmental performance.
a.) Strongly Disagree
b.) Disagree
c.) Neutral
d.) Agree
e.) Strongly Agree

2.) Green practices in your company improve your chances of receiving preferential financing.
a.) Strongly Disagree
b.) Disagree
c.) Neutral
d.) Agree

e.) Strongly Agree

3.) Investors are more likely to provide funding to firms that perform well on social factors (e.g., labour, community).
   a.) Strongly Disagree
   b.) Disagree
   c.) Neutral
   d.) Agree
   e.) Strongly Agree
4.) Social responsibility disclosures increase investor confidence and funding opportunities.
   a.) Strongly Disagree
   b.) Disagree
   c.) Neutral
   d.) Agree
   e.) Strongly Agree
5.) Investors are more likely to provide funding to firms with high corporate governance standards.
   a.) Strongly Disagree
   b.) Disagree
   c.) Neutral
   d.) Agree
   e.) Strongly Agree
6.) Transparent board practices and audit quality improve access to capital.
   a.) Strongly Disagree
   b.) Disagree
   c.) Neutral
   d.) Agree
   e.) Strongly Agree

Section C: Perceptions Related to Enivornmental, Social and Governance Compliance

1.) Your company strictly follows environmental regulations relevant to your operations.
   a.) Strongly Disagree
   b.) Disagree
   c.) Neutral
   d.) Agree
   e.) Strongly Agree
2.) You have formal systems to monitor environmental performance (e.g., emissions, waste).
   a.) Strongly Disagree
   b.) Disagree
   c.) Neutral
   d.) Agree
   e.) Strongly Agree
3.) You proactively implement environmental standards beyond minimum legal requirements.
   a.) Strongly Disagree
   b.) Disagree
   c.) Neutral
   d.) Agree
   e.) Strongly Agree
4.) Environmental compliance is a priority in your business strategy.
   a.) Strongly Disagree

b.) Disagree
c.) Neutral
d.) Agree
e.) Strongly Agree

5.) Environment rules in your organization are followed even when there is no regular inspection.
a.) Strongly Disagree
b.) Disagree
c.) Neutral
d.) Agree
e.) Strongly Agree

6.) Your company adheres to labour laws and worker safety regulations.
a.) Strongly Disagree
b.) Disagree
c.) Neutral
d.) Agree
e.) Strongly Agree

7.) You have processes to ensure fair treatment of employees and suppliers.
a.) Strongly Disagree
b.) Disagree
c.) Neutral
d.) Agree
e.) Strongly Agree

8.) You engage with local communities to address social concerns related to your operations.
a.) Strongly Disagree
b.) Disagree
c.) Neutral
d.) Agree
e.) Strongly Agree

9.) Social compliance is regularly reviewed by your senior management.
a.) Strongly Disagree
b.) Disagree
c.) Neutral
d.) Agree
e.) Strongly Agree

10.) Your social policies are substantive and consistently implemented.
a.) Strongly Disagree
b.) Disagree
c.) Neutral
d.) Agree
e.) Strongly Agree

11.) Your governance structures comply with applicable laws and listing rules.
a.) Strongly Disagree
b.) Disagree
c.) Neutral
d.) Agree
e.) Strongly Agree

12.) You have clear processes for financial reporting and internal control.
a.) Strongly Disagree

b.) Disagree
c.) Neutral
d.) Agree
e.) Strongly Agree

13.) Your board's oversight of risk (including environmental and social risk) is effective.
a.) Strongly Disagree
b.) Disagree
c.) Neutral
d.) Agree
e.) Strongly Agree

14.) Your company adopts transparent disclosure practices for major decisions.
a.) Strongly Disagree
b.) Disagree
c.) Neutral
d.) Agree
e.) Strongly Agree

15.) Governance procedures in your company exist mostly as formalities rather than enforced practices
a.) Strongly Disagree
b.) Disagree
c.) Neutral
d.) Agree
e.) Strongly Agree