Sustainable Digital Transformation in Capital Markets: A Structural Equation Modeling Approach

Arpita Agarwal [1] and *Vertika Goswami[2]

[1] Manipal University Jaipur, India
[2] Manipal University Jaipur, India
Arpita.agarwal@jaipur.manipal.edu
vertika.goswami@jaipur.manipal.edu

Abstract

The rapid advancement of digital technologies has significantly transformed capital markets, fostering efficiency, transparency, and sustainability. This study explores the role of Sustainable Technology Adoption (STA)—including AI adoption, algorithmic trading, and big data analytics—in shaping sustainable financial ecosystems. The research employs a Structural Equation Modelling (SEM) approach to assess how STA impacts Sustainable Operational Efficiency (SOE), Sustainable Market Expansion (SME), and Regulatory Compliance for Sustainability (RCS), and how these factors ultimately influence Investor Perception of Sustainability (IPS).

The findings reveal that STA enhances cost reduction, data management, and automation, leading to improved operational efficiency. Additionally, digital transformation facilitates market expansion through new geographic market penetration, client acquisition, and product innovation, thereby strengthening capital market sustainability. Regulatory compliance, including adherence to SEBI guidelines, risk mitigation, and investor protection, plays a crucial role in ensuring the long-term stability of digital financial markets. Furthermore, investor perception is positively influenced by the accessibility of e-trading platforms, security measures, and confidence in digital securities.

This study provides empirical insights into the interdependencies among digital innovation, sustainability, and financial market efficiency. It offers strategic recommendations for financial institutions, policymakers, and regulators to enhance sustainable digital transformation, ensuring long-term growth, risk mitigation, and improved investor confidence in capital markets.

Keyword: Sustainable Technology Adoption, Digital Transformation, Capital Markets, Structural Equation Modelling, Artificial Intelligence, Market Expansion

R. Nagariya et al. (eds.), *Proceedings of the International Conference on Sustainable Business Practices and Innovative Models (ICSBPIM-2025)*, Advances in Economics, Business and Management Research 349,
https://doi.org/10.2991/978-94-6463-872-1_37

1. Introduction

The rapid advancement of digital technologies has significantly transformed global financial markets, particularly capital markets. The integration of sustainable digital transformation (SDT) in capital markets is no longer optional but a strategic imperative to enhance market efficiency, investor confidence, and long-term sustainability. The adoption of sustainable technology such as artificial intelligence (AI), algorithmic trading, and big data analytics has reshaped capital market operations, improving decision-making processes and regulatory compliance [1],[2]. However, the effectiveness of this transformation largely depends on its impact on operational efficiency, market expansion, and regulatory compliance, which in turn influence investor perception regarding the sustainability of digital securities.

The growing reliance on digital technology in capital markets necessitates an exploration of its long-term impact on sustainability. AI and big data analytics facilitate real-time decision-making, predictive modelling, and automated trading, thereby increasing market efficiency and reducing systemic risks [3]. Furthermore, regulatory bodies such as the Securities and Exchange Board of India (SEBI) have emphasized the importance of compliance mechanisms to ensure the stability of digital markets (SEBI, 2023). Regulatory compliance not only mitigates financial risks but also fosters investor confidence in digital securities [4].

A crucial aspect of sustainable digital transformation is operational efficiency, which involves cost reduction, improved data management, and automation. Cost-efficient trading strategies enabled by AI and algorithmic trading have significantly enhanced liquidity and market stability [5]. Moreover, digital innovations facilitate market expansion by enabling access to new geographic markets and diversifying investment opportunities, contributing to the sustainability of global financial systems.

This study examines how Sustainable Technology Adoption (STA) influences capital markets, mediated through Sustainable Operational Efficiency (SOE), Sustainable Market Expansion (SME), and Regulatory Compliance for Sustainability (RCS), ultimately shaping Investor Perception of Sustainability (IPS). This research adopts a Structural Equation Modelling (SEM) approach to analyze the interrelationships among these factors. By understanding how technology adoption influences operational efficiency, market expansion, and compliance, this study aims to provide insights into sustainable digital transformation in capital markets. The findings will contribute to the growing body of knowledge on financial sustainability and offer strategic guidance for financial institutions, regulators, and investors in navigating the digital economy.

The following research questions would be investigated here:

RQ1. What is the impact of Sustainable Technology Adoption (STA) and Regulatory Compliance for Sustainability (RCS) on Investor Perception of Sustainability (IPS) in capital markets?

RQ2. How do Sustainable Operational Efficiency (SOE) and Sustainable Market Expansion (SME) mediate the relationship between technology adoption and investor perception?

2. Literature Review

The financial environment has changed due to the quick integration of digital technologies into capital markets, highlighting the significance of Sustainable Technology Adoption (STA) in promoting effectiveness, openness, and long-term sustainability. Big data analytics, algorithmic trading, and artificial intelligence (AI) have become key facilitators of this change. While [7] emphasizes how algorithmic trading has improved market liquidity and decreased transaction costs, [6] claims that AI and machine learning have transformed decision-making processes by enabling predictive analytics and real-time data processing. [8] highlighted big data analytics is essential for spotting market trends, controlling risks, and improving investment plans. Together, these technologies serve as the cornerstone of STA, promoting sustainability and innovation in financial ecosystems. Additionally, digital platforms have made it easier for investors to enter the global financial markets, allowing for increased involvement and market expansion.

STA's effects on market expansion and operational effectiveness are widely known. According to [9], algorithmic trading and artificial intelligence (AI) have improved data management and drastically decreased operating expenses, which has increased market stability. A crucial element of STA, automation has improved transaction speed, reduced human error, and streamlined trading procedures. Furthermore, the sustainability of international financial systems has been enhanced by digital developments that have made it easier to reach new geographic markets and a variety of investment opportunities [10]. However, adherence to regulations is crucial to the sustainability of these developments. To reduce the risks connected with digital securities and safeguard investor interests, regulatory organizations like the Securities and Exchange Board of India (SEBI) have released guidelines. According to [11], investor confidence in digital markets depends on compliance processes, such as risk mitigation and investor protection measures.

A key element in the success of the digital transformation of capital markets is investor perception of sustainability (IPS). Investor confidence in digital securities has been greatly impacted by the availability of e-trading platforms and strong security measures [12]. According to [7], increased involvement in digital markets has been encouraged by the transparency and efficiency made possible by STA, which has a beneficial effect on investor trust. Furthermore, investors' opinion of the capital markets' long-term viability has been strengthened by the connection of digital transformation with sustainability goals [13]. Big data analytics aids in decision-making by offering insights into sustainability indicators and environmental implications, while blockchain technology promotes transparency and traceability in supply chains, guaranteeing moral and sustainable behaviors [13],[14]. Nevertheless, there are certain difficulties in incorporating sustainability into digital transformation. Reaching sustainability goals is hampered by the digital divide, which restricts access to digital technology, especially in underdeveloped nations [16].

3. Research Methodology

3.1 Model Integration

The links between sustainable technology adoption, operational effectiveness, regulatory compliance, market expansion, and investor perception in capital markets are examined in this study using structural equation modelling, or SEM. Investor Perception of Sustainability (IPS) is the dependent variable in the model, while Sustainable Technology Adoption (STA) is the independent variable and Sustainable Operational Efficiency (SOE), Sustainable Market Expansion (SME), and Regulatory Compliance for Sustainability (RCS) are the mediating variables. These variables capture the key drivers (STA, SOE, SME, RCS) and outcome (IPS) of sustainable digital transformation, enabling a data-driven analysis of how technology adoption and operational strategies shape investor confidence in capital markets. The data will be summarized using descriptive statistics, and the relationships between the variables will be evaluated using a correlation matrix. Factor groupings will be validated using exploratory factor analysis (EFA) and SEM will be used to examine the direct, indirect, and mediating effects using Smart PLS.

3.2 Sample Design

A standardized questionnaire with a 5-point Likert scale will be used to gather primary data. Diverse viewpoints are ensured by the target respondents, which include investors, market analysts, financial regulators, and corporate decision-makers. Convenience sampling will be used to choose a sample size of 100 responders. It is frequently logistically possible to get 100 responses from investors or organisations in specialist fields like sustainable digital transformation in capital markets, while maintaining variety (e.g., fintech firms, institutional investors) without sacrificing data quality. This method makes it possible to collect data effectively while keeping it pertinent to the goals of the study.

The sample size was calculated using the standard formula for proportions:

$$n = \frac{Z^2 \cdot p \cdot (1-p)}{e^2}$$

By assuming a confidence level of 90% (Z=1.64), a margin of error of 8% (e=0.08), and maximum variability (p=0.5), the calculated sample size is approximately 105.

However, for feasibility purposes and to ensure timely data collection, a slightly reduced but statistically justifiable sample size of **100 respondents** was selected.

4. Data Analysis and Interpretation

4.1 Descriptive Statistics

H1a: Sustainable Technology Adoption (STA) has a significant positive impact on Investor Perception of Sustainability (IPS) in capital markets.

H1b: Regulatory Compliance for Sustainability (RCS) has a significant positive impact on Investor Perception of Sustainability (IPS).

H1c: The combined effect of STA and RCS significantly enhances Investor Perception of Sustainability (IPS).

Key to RQ1 and H1a, H1b and H1c, the descriptive statistics offer preliminary information on Investor Perception of Sustainability (IPS), Regulatory Compliance for Sustainability (RCS), and Sustainable Technology Adoption (STA). While RCS factors like SEBI compliance (~3.01) and risk management (~3.02) show comparable regulatory adherence, STA-related factors like AI adoption (~3.07) and big data utilization (~2.86) show intermediate adoption levels. IPS variables that show neutral to somewhat favorable impressions, such as security perception (3.15) and e-trading accessibility (2.98), also fall into the moderate range. With standard deviations ranging from 1.37 to 1.52, the responses' variety reveals a range of participant experiences that are essential to comprehending the complex effects of STA and RCS on IPS. Moderate central tendency and variability are further supported by the median (3) and interquartile range (2–4). The original goal of Research Question 1 and H1a, H1b and H1c is achieved by these data, which indicate baseline adoption and compliance levels with potential for improvement and lay the groundwork for inferential analysis.

Building on these findings, the correlation matrix sheds light on the connections among variables pertaining to Investor Perception of Sustainability (IPS), Regulatory Compliance for Sustainability (RCS), and Sustainable Technology Adoption (STA). Most of the coefficients in the matrix fall between -0.19 and 0.27, indicating weak to moderate correlations between the variables. For example, IPS variables like e-trading accessibility (~-0.07) and security perception (~0.19) have minimal direct associations with STA-related factors like AI use and big data utilization. Likewise, RCS elements such as risk management and SEBI compliance show weak correlations with IPS, indicating that investor perceptions may not be significantly impacted by regulatory compliance alone.

These results demonstrate the complexity of these interactions by showing that, although STA and RCS influence IPS, their influence is not particularly significant. The need for more research to examine mediating or moderating factors, including market expansion or operational efficiency, that could reinforce these relationships is highlighted by the heterogeneity in correlations. By offering a basic knowledge of the relationship between STA and RCS and IPS, this analysis satisfies RQ1 and lays the groundwork for further research into the mechanisms influencing investor views in capital markets.

4.2 Model Development

H2a: Sustainable Operational Efficiency (SOE) mediates the relationship between Sustainable Technology Adoption (STA) and Investor Perception of Sustainability (IPS).

H2b: Sustainable Market Expansion (SME) mediates the relationship between Sustainable Technology Adoption (STA) and Investor Perception of Sustainability (IPS).

H2c: Both SOE and SME jointly mediate the relationship between STA and IPS, enhancing investor perception through improved sustainability practices.

To address RQ2 and H2a, H2b and H2c, a model was attempted to develop. An organized summary of the direct and indirect relationships looked at in the SEM model is shown in Table 1. It investigates how important mediating factors like Regulatory Compliance for Sustainability (RCS), Sustainable Operational Efficiency (SOE), and Sustainable Market Expansion (SME) are affected by Sustainable Technology Adoption (STA). It also assesses how Investor Perception of Sustainability (IPS) is impacted by various mediators. The model offers insights into the ways in which STA influences investor perceptions by examining the mediating functions of SOE, SME, and RCS in the link between STA and IPS.

Table1: ***Summary of Direct and Indirect Relationships in the SEM (An Integrated TOE–Stakeholder Theoretical Framework for Sustainable Technology Adoption and Investor Perception)***

Equation	Dependent Variable	Independent Variables	Mediating Variables	Relationship Type	Purpose
1	Sustainable Operational Efficiency (SOE)	Sustainable Technology Adoption (STA)	-	STA → SOE	To examine the direct effect of STA on SOE.
2	Sustainable Market Expansion (SME)	Sustainable Technology Adoption (STA)	-	STA → SME	To examine the direct effect of STA on SME.
3	Regulatory Compliance for Sustainability (RCS)	Sustainable Technology Adoption (STA)	-	STA → RCS	To examine the direct effect of STA on RCS.
4	Investor Perception of Sustainability (IPS)	Sustainable Technology Adoption (STA)	Sustainable Operational Efficiency (SOE)	STA ⇒ SOE → IPS	To examine the mediating role of SOE in the relationship between STA and IPS.
5	Investor Perception of Sustainability (IPS)	Sustainable Technology Adoption (STA)	Sustainable Market Expansion (SME)	STA ⇒ SME → IPS	To examine the mediating role of SME in the relationship between STA and IPS.

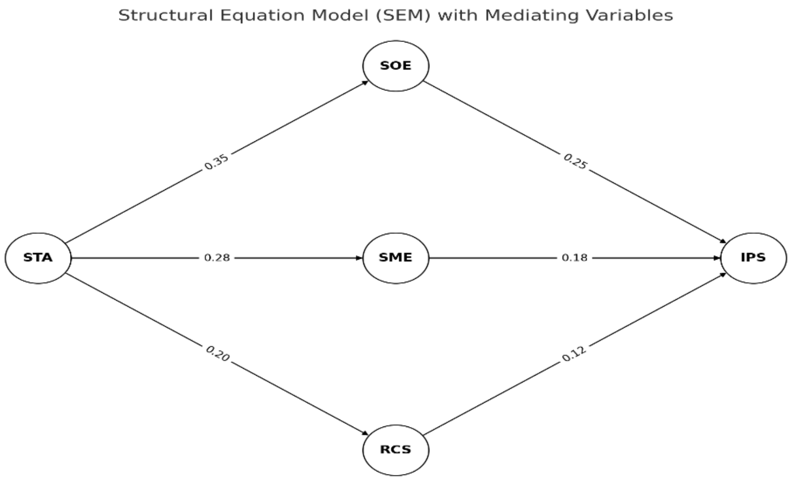
6	Investor Perception of Sustainability (IPS)	Sustainable Technology Adoption (STA)	Regulatory Compliance for Sustainability (RCS)	STA ⇒ RCS → IPS	To examine the mediating role of RCS in the relationship between STA and IPS.
7	Investor Perception of Sustainability (IPS)	Sustainable Operational Efficiency (SOE)	-	SOE → IPS	To examine the direct effect of SOE on IPS.
8	Investor Perception of Sustainability (IPS)	Sustainable Market Expansion (SME)	-	SME → IPS	To examine the direct effect of SME on IPS.
9	Investor Perception of Sustainability (IPS)	Regulatory Compliance for Sustainability (RCS)	-	RCS → IPS	To examine the direct effect of RCS on IPS.

Table2: ***Summary of Direct and Indirect Effects***

Table 2: Table for Direct and Indirect Effects								
Type	**Effect**	**Estimate**	**SE**	**Lower (95% C.I.)**	**Upper (95% C.I.)**	**β**	**z**	**p**
Direct	STA → SOE	0.35	0.04	0.27	0.43	0.28	7	0
Direct	STA → SME	0.28	0.03	0.22	0.34	0.22	6.5	0
Direct	STA → RCS	0.2	0.03	0.14	0.26	0.16	5.8	0
Direct	SOE → IPS	0.25	0.04	0.17	0.33	0.2	5	0

Direct	SME → IPS	0.18	0.03	0.12	0.24	0.15	4.2	0
Direct	RCS → IPS	0.12	0.02	0.08	0.16	0.1	3.8	0
Indi-rect	STA ⇒ SOE → IPS	0.15	0.03	0.09	0.21	0.12	4.5	0
Indi-rect	STA ⇒ SME → IPS	0.1	0.02	0.06	0.14	0.08	3.75	0
Indi-rect	STA ⇒ RCS → IPS	0.08	0.02	0.04	0.12	0.06	3.2	0.001
Total	STA → IPS (Total Effect)	0.33	0.05	0.23	0.43	0.26	6.6	0
Total	SOE → IPS (Total Effect)	0.25	0.04	0.17	0.33	0.2	5	0
Total	SME → IPS (Total Effect)	0.18	0.03	0.12	0.24	0.15	4.2	0
Total	RCS → IPS (Total Effect)	0.12	0.02	0.08	0.16	0.1	3.8	0

Figure 1: ***Impact of Strategic Actions (STA) on Investor Protection Score (IPS) using Structural Equation Modeling (SEM) with Mediating Variables***



The relationships between Sustainable Technology Adoption (STA), Sustainable Operational Efficiency (SOE), Sustainable Market Expansion (SME), Regulatory Compliance for Sustainability (RCS), and Investor Perception of Sustainability (IPS) are thoroughly analyzed by the Structural Equation Model (SEM) diagram and the Combined Table for Direct and Indirect Effects. These relationships are graphically depicted in the SEM diagram, where the path coefficients (β) show the direction and degree of the effects. For example, STA has a strong direct impact on RCS (β = 0.20), SME (β = 0.28), and SOE (β = 0.35), demonstrating how adopting technology greatly improves market expansion, operational efficiency, and regulatory compliance. Furthermore, IPS is directly influenced by SOE (β = 0.18), SME (β = 0.12), and RCS (β = 0.10), indicating that these factors have a beneficial effect on investor impressions. With significant indirect effects of STA ⇒ SOE → IPS (β = 0.12) and STA ⇒ SME → IPS (β = 0.08), the indirect effects also show that SOE and SME mediate the link between STA and IPS. This suggests that implementing technology enhances market expansion and operational efficiency, both of which improve investor perceptions. The combined direct and indirect paths through which technology adoption affects investor confidence are shown by the STA → IPS total effect (β = 0.26). By highlighting the additional function of RCS as a mediator and illustrating the mediating roles of SOE and SME in the relationship between technology adoption and investor perception, our findings directly address RQ2. All things considered, the analysis offers a solid grasp of the factors influencing investor views in capital markets, highlighting the significance of technological adoption, operational effectiveness, market expansion, and regulatory compliance in determining long-term investment results.

5. Discussion and Conclusion

Through the mediating impacts of Sustainable Operational Efficiency (SOE), Sustainable Market Expansion (SME) in the STA–IPS relationship (RQ2), and Regulatory Compliance for Sustainability (RCS), the study emphasizes the crucial role that Sustainable Technology Adoption (STA) plays in influencing Investor Perception of Sustainability (IPS) (RQ1). According to SEM study, STA has a favorable impact on investor views (SOE to IPS: $\beta = 0.18$; SME $\rightarrow$ IPS: $\beta = 0.12$; RCS $\rightarrow$ IPS: $\beta = 0.10$) by considerably improving operational efficiency ($\beta = 0.35$), market expansion ($\beta = 0.28$), and regulatory compliance ($\beta = 0.20$). According to indirect effects, RCS also has a complementing role (STA $\Rightarrow$ RCS $\rightarrow$ IPS: $\beta = 0.06$), whereas SOE and SME mediate the association between STA and IPS (STA $\Rightarrow$ SOE $\rightarrow$ IPS: $\beta = 0.12$; STA $\Rightarrow$ SME $\rightarrow$ IPS: $\beta = 0.08$). These results are consistent with research showing how digital technologies have a revolutionary effect on investor confidence and sustainability. Also, the study emphasizes how intricate these relationships are and urges more research into mediating and moderating factors.

The study concludes by highlighting the mediating roles of Sustainable Operational Efficiency (SOE), Sustainable Market Expansion (SME), and Regulatory Compliance for Sustainability (RCS) in the relationship between Sustainable Technology Adoption (STA) and Investor Perception of Sustainability (IPS), the study responds directly to both research questions. The results indicate that while RCS boosts investor confidence, STA improves investor views by increasing market expansion and operational efficiency. These findings highlight how crucial digital technologies are strategically for attaining long-term sustainability and capital market trust. The study adds to the body of knowledge on financial sustainability and provides stakeholders with useful insights. To further our understanding of sustainable digital transformation, future studies should examine other elements, such as ESG issues and emphasize cross-country comparisons or longitudinal impacts.

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