

Chapter 5

Sustainable Finance and ESG Investing: Pathways to Long-Term Business Success

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ABSTRACT

The economic development of the nation necessitates the establishment of a robust financial system, which can be achieved through the successful outcomes of businesses in both the public and private sectors. The company's smooth operation is primarily dependent on its finances; however, in order to reap long-term benefits, sustainability must be achieved through the implementation of a variety of rules, policies, and procedures. Sustainable finance has to do with investing decisions that put environmental, social, and governance (ESG) factors first in order to plan for the company's long-term survival. In order to understand the conceptual meaning of ESG and other terms associated with it, the theories of a number of researchers have been reviewed in this paper to provide comprehensive knowledge. The findings of this paper can be utilized by researchers, practitioners, and the general public. Additional recommendations are made at the end.

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1. INTRODUCTION

We are all aware that businesses fulfilled their Corporate Social Responsibilities (CSR), but following COVID 19, a new shift in the direction of a sustainable future was necessary. CSR established the groundwork for corporate commitment with social issues and local area government assistance, sustainability extends this system to incorporate a more extensive arrangement of worries, coordinating natural stewardship and long-term economic viability. Sustainability encourages businesses to proactively manage their impacts across all dimensions—Environmental, Social, and Governance (ESG)—aligning their operations with the goal of creating value not just for shareholders, but for all stakeholders, including future generations. Sustainability is the new paradigm gaining popularity because it is providing benefits to the stakeholders, safeguarding the environment and integrating green initiatives (Migliorelli, 2021). It serves as the starting point for projects, portfolio management, company valuation, interactions between management and shareholders, and public sector policy analysis that takes into account the way finance is embedded in society and the environment (Kopnina, 2015).

Sustainable development and the incorporation of environmental, social, and governance (ESG) considerations into economic decision-making are two objectives that are inextricably linked to sustainability and sustainable finance. Sustainable finance gives the financial support and motivations to help sustainable practices, while standards guide these practices towards long term environmental, social, and economic strength (Bergquist, 2017). Together, they contribute to building a more sustainable and inclusive global economy. Sustainable Finance is a significant perspective for making a great market picture of the business by thinking about every one of the elements influencing the process of the firm straightforwardly or by implication (Al Ahbabi & Nobanee, 2019). Sustainability is all about channelizing three pillars, Environmental, Social and Governance (ESG) into business capabilities (Efthymiou et al., 2023). As a result, venture choice considers the Environmental, social, and governance (ESG) concerns (T. Li et al., 2021).

- a) Concerns about the environment include things like pollution, deforestation and land use, climate change, energy efficiency, raw material sourcing, waste management, and emissions of greenhouse gases (T. Li et al., 2021).
- b) The company's interactions with internal and external stakeholders are the subject of social aspects. An investment strategy that emphasizes this one aspect of ESG is called socially responsible investing (SRI). In addition to combating racial, gender, and sexual discrimination, SRI investors are looking for businesses that promote ethical and socially conscious concepts like diversity, inclusion, community focus, social justice, and corporate ethics (T. Li et al., 2021).

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