Chapter 10
Sustainable Investments for a Greener Future–Exploring the Impact of SRI Funds

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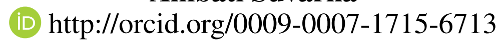
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ABSTRACT

Socially Responsible Investment (SRI) funds have achieved financial legitimacy and often match or outperform conventional funds. The proof of their environmental and social effects in actual situations remains uncertain. The paper defines the SRI Performance Impact Paradox as a situation that shows strong financial results but produces minor sustainability results. The study uses a structured narrative review to analyze literature from 2000 to 2024 while combining stakeholder theory with legitimacy theory and behavioral finance into a single analytical framework. The analysis reveals that ESG metrics, which are often disconnected, along with companies that only meet basic requirements and have little involvement from shareholders, as well as gaps in regulations, prevent capital from making a real difference. The paper presents a causal framework that explains how SRI capital starts to generate actual impact while it identifies policy changes that will enhance organizational responsibility and operational efficiency.

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INTRODUCTION

The mounting concern of climate change, social inequality, and corporate responsibility has changed the way investments are done in the world today, with Socially Responsible Investment (SRI) funds rapidly increasing. Compared to traditional investment strategies where long-term returns on investment are given less priority, SRI incorporates the three components of environmental, social, and governance, namely ESG, in the process of selecting a portfolio and capital allocation. Consequently, SRI funds are being considered as the tool that can be used to balance financial results with the overall societal and environmental goals. In the last twenty years SRI has developed from an extension of niche screening of ethics to now become a mainstream section of the world.

The existing tension continues to exist because nobody has solved this main problem, which remains. The studies show that SRI funds achieve risk-adjusted returns that match the performance of traditional funds, yet their capacity to produce consistent environmental and social results remains uncertain. The chapter presents this SRI Performance–Impact Paradox as a fundamental conflict that shows how financial performance competes with actual sustainability effects that remain uncertain. The paradox raises a fundamental research question: Why do SRI funds often succeed as financial products yet fall short as mechanisms for transforming corporate environmental and social behavior? The resolution of this question impacts our assessment of SRI as either a genuine advancement in sustainable finance or an instrument for reputation management within capital markets.

The chapter presents two separate dimensions that measure SRI effectiveness to answer this question. Financial performance refers to traditional investment outcomes such as returns, risk mitigation, and resilience during market downturns, whereas real-world impact concerns observable changes in corporate environmental practices, social responsibility, and governance quality. The assumption that capital reallocation toward high-ESG firms will produce beneficial behavior changes does not hold because current research shows this process operates through weak channels that exist in disconnected parts or depend on disclosure methods instead of actual business advancements.

This chapter uses an analytical framework composed of three different theories, Stakeholder Theory, Legitimacy Theory, and Behavioural Finance, to develop its centralized argument. Stakeholder Theory provides a foundation for explaining how Socially Responsible Investing (SRI) would impact firms through aligning corporate strategies with the objectives of multiple stakeholder groups, whereas Legitimacy Theory describes the risks associated with firms' responses to SRI pressures via symbolic compliance as opposed to real change (with regard to enhanced ESG reporting). Whereas behavioral finance creates a mechanism for understanding the

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