

SUSTAINABLE INVESTMENT DECISION FOR ENVIRONMENTAL, SOCIAL AND GOVERNANCE INTEGRATION—AN EVALUATION

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ABSTRACT

This paper explores the integration of ESG criteria into investment strategies, emphasizing its role in fostering long-term value creation and mitigating environmental and social risks. The inclusion of ESG factors in financial decision-making has shifted from a niche practice to a mainstream strategy, driven by regulatory changes, investor demand, and growing evidence of the positive correlation between ESG integration and financial performance. The paper discusses key methodologies for incorporating ESG criteria, such as negative screening, impact investing, and ESG integration, while highlighting the challenges of data standardization, green washing, and measuring intangible impacts.

KEYWORDS: *Sustainable Finance, ESG Integration, Investment Strategies, Environmental, Social, Governance*

Article History

Received: 26 Mar 2026 | Revised: 28 Mar 2026 | Accepted: 30 Mar 2026

INTRODUCTION

The financial landscape has experienced a significant transformation driven by the increasing emphasis on sustainability and ethical practices. At the heart of this shift is sustainable finance, a concept that integrates environmental, social, and governance (ESG) criteria into investment decisions to promote long-term growth while addressing global challenges like climate change, social inequality, and corporate accountability. This paradigm aims to align financial objectives with broader societal goals, fostering a harmonious balance between profitability and responsibility. Sustainable finance reflects the growing awareness among investors, corporations, and policymakers about the critical role finance plays in shaping a sustainable future. It moves beyond traditional investment strategies that prioritize short-term financial gains and instead incorporates non-financial factors—environmental stewardship, social impact, and governance transparency—into the decision-making process. These factors serve as benchmarks to evaluate the resilience and ethical standing of businesses in a rapidly changing world. The integration of ESG criteria represents a fundamental shift in how financial markets operate. Investors increasingly recognize that businesses prioritizing sustainability are better positioned to mitigate risks, seize new opportunities, and generate long-term value. Furthermore, as regulatory frameworks and stakeholder expectations evolve, incorporating ESG principles is no longer optional but essential for maintaining competitiveness and ensuring compliance. This trend underscores the necessity for financial institutions and investors to adopt innovative strategies that reflect the interconnectedness of financial performance and sustainability. This introduction sets the stage for exploring the intricacies of ESG integration, examining its implications for investment strategies, and understanding how it serves as a catalyst for

driving positive change across economic, social, and environmental dimensions. By delving into the principles, challenges, and opportunities of sustainable finance, this discussion aims to highlight its transformative potential in reshaping global financial systems for a more sustainable future.

OBJECTIVES OF THE STUDY

- To collect the data on the basis articles.
- To collect the data on the basis count of approaches.

RESEARCH DESIGN AND METHODOLOGY

- **Exploratory Research Design:** Exploratory research is suitable for gaining insights and understanding about a topic when there is limited existing knowledge or understanding. It helps in identifying key variables, formulating hypotheses, and clarifying research objectives. Exploratory research could be used in the initial stages of the study to explore concepts such as the impact of time pressure on decision-making, the role of social influence in consumer decision-making, and the differences in decision-making styles among leaders. This design allows for flexibility and open-ended exploration of the research questions.
- **Descriptive Research Design:** Descriptive research is used to describe characteristics of a population or phenomenon being studied. It aims to answer questions about who, what, when, where, and how. Descriptive research could be employed to analyse consumer decision-making behaviours in purchasing sustainable products, assess the effects of decision-making support tools on strategic decision-making, and examine the relationship between decision-making styles and job satisfaction among employees. This design helps in providing a clear picture of the phenomena under investigation and in achieving specific research objectives related to describing and quantifying relationships or patterns.
- **Causal Research Design:** Causal research is focused on understanding cause-and-effect relationships between variables. It involves manipulating one or more variables to observe the effect on another variable. Causal research could be utilized to test hypotheses related to the impact of decision-making biases on project management outcomes, the influence of decision-making training interventions on reducing biases among managers, and the effects of decision-making transparency on public trust in government decision-making processes. This design allows for making causal inferences and establishing the directionality of relationships between variables.

REVIEW OF LITERATURE

Numerous studies, the most recent of which is the CFA Institute's research (CFA 2017), support the need for ESG integration. Of those surveyed, 51% confirmed that they systematically considered ESG issues within their investment analysis, and 45% used the information on a case-by-case basis. Diverse definitions exist for ESG integration. ESG integration is defined by the OECD study (OECD 2017) as the institutional investor's investment policy or principles acknowledging that ESG factors may affect portfolio performance and, consequently, the investor's ability to fulfil its obligations; and using analysis of those impacts to inform securities valuation models and asset allocation decisions (or hiring third parties to do so). The idea that ESG variables materially affect financial market and company performance is becoming more widely accepted. Several studies indicate that financial markets incentivize positive ESG performance, but

a low ESG score may result in a decline in stock price (particularly when adverse information is present) or a rise in the needed rate of return as a trade-off for elevated risk. Clark et al. (2015) conducted a study to examine the relationship between ESG level and cost of equity. The results indicated that transparent and low risk corporate governance also lowers the cost of equity for the company. Consequently, it would seem reasonable to assume that, if the claim that credit spread can be reduced by fully integrating ESG, then, based on the conventional wisdom that lower borrowing capital risk will result in lower risks for owners, it is also reasonable to assume that lower equity costs will follow. Not all scholarly research indicates that ESG elements and long-term results are positively correlated. According to Barnett and Salomon (2006), there is a curvilinear relationship between ESG integration and investment performance. This is because the benefits of ESG are long-term, while the associated costs are immediate. One way to understand this result is in terms of leading and trailing indicators. When using regression models to determine how financial indicators depend on sustainability indicators, it is important to keep in mind that ESG indicators are leading while financial performance indicators are behind. The impact of climate change is one of the most important of the many important sustainability challenges. The necessity to disclose this ESG feature in business reporting is found in several national rules.

One of the most thorough studies in this field was carried out by the Canadian Securities Administrators (CSA), who also released a report on the project's findings regarding the disclosure of risks and financial effects related to climate change by reporting issuers (CSA 2018). In line with the project's objectives, CSA conducted research on the proposed or existing climate change related regulatory disclosure requirements, reviewed the public disclosure policies of a select group of major Canadian issuers across several industries, conducted focused consultations with issuers, users, and other stakeholders, and produced additional findings (CSA 2018). The approaches to inclusion differ greatly, even if the concept of ESG integration is endorsed by the academic and investment groups. According to Van Duren et al. (2016), the self-reported average ESG integration score ranged from 2.33 (no integration) to 4.75 (complete integration), with a standard deviation of 77. Rather than using unmodified company data (30%), the majority of asset managers favoured incorporating ESG elements through modified research inputs, such as ratings (45%) and company analysis (81%), supplied by thirty parties. The study of CFA Institute (CFA 2017) leads to a similar conclusion suggesting that ESG factors are not truly integrated in fundamental analysis. The integration process most of the time is discretionary and unsystematic, without equal emphasis on identifying ESG risks and seizing ESG-related opportunities.

ANALYSIS OF THE STUDY

Screening article selection process graphical representation for comprehensive research

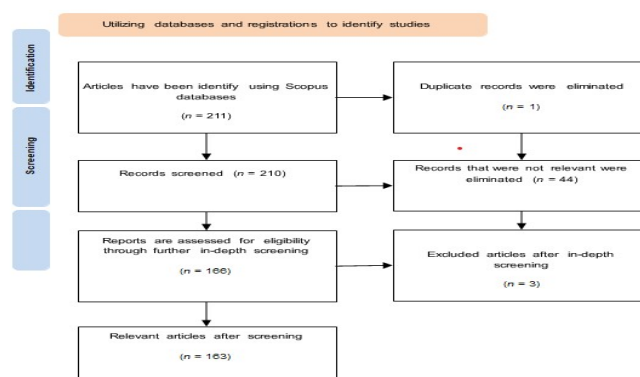
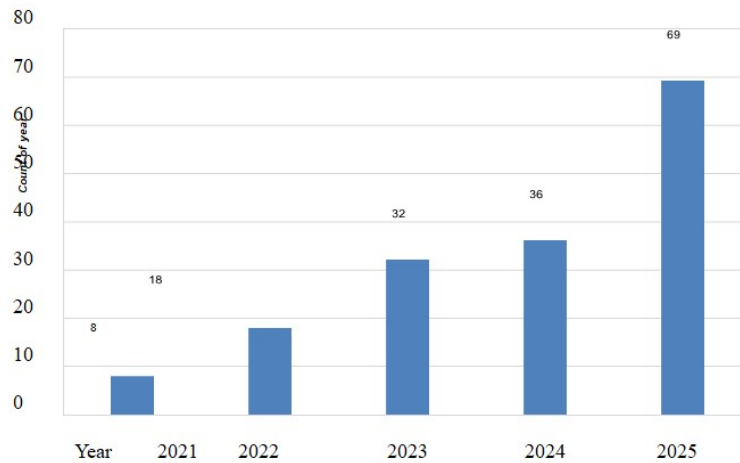


Figure 1

Years

Environmental, social, and governance investing is a rapidly evolving area (Drei et al., 2021). Figure 2 represents the overall pattern by year among articles selected for the thorough review research from 2021 to 2025. It indicates that 69 of the 163 articles were published in 2025, 36 in 2024, and 32 in 2023. Furthermore, there were 18 and eight articles published in 2020 and 2021, respectively.



Source: Primary Data

Figure 2: Overall Statistics of Selected Articles by Year.

Journals

As a whole, the comprehensive literature evaluation included journal articles published in 89 distinct international publications between 2019 and 2023. A greater number of publications (42.33%) were published within 2023: *Sustainability* (Switzerland) (16.56%), *Business Strategy and the Environment* (6.13%), *Journal of Sustainable Finance and Investment* (5.52%), *Journal of Cleaner Production* (3.68%), *Corporate Governance* (Bingley) (3.07%), and *Finance Research Letters* (2.45%) (see Table A.2 in Appendix).

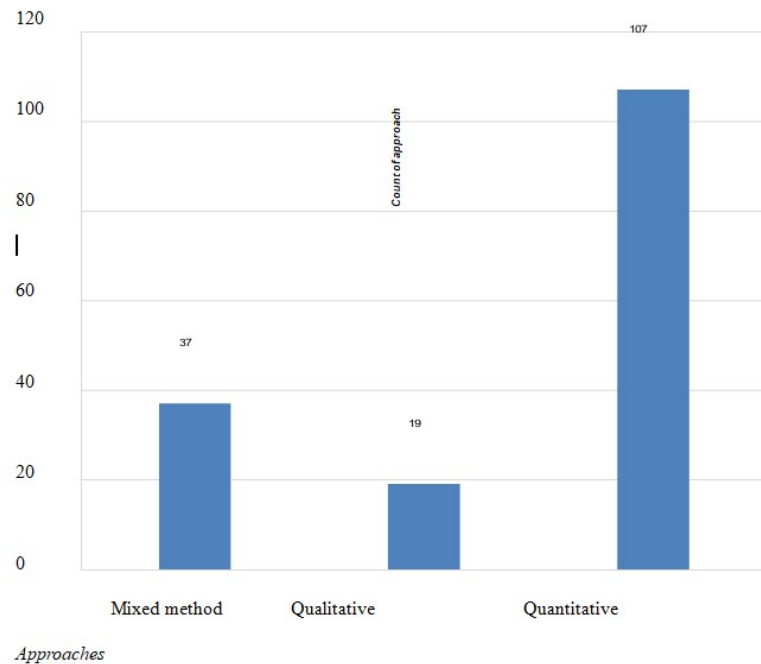
Descriptive Analysis

Table A.1 in Appendix shows the categorization of 163 articles on sustainable investing and ESG by theme, approaches, and ESG factors. Thematic evaluation and interpretation are presented in this part. The total count of approaches is shown in Figure 3.

Approaches

In Figure 3 the examination of ways used in a comprehensive assessment of research publications from 2021 to 2025 demonstrates a broad landscape of strategies for analyzing ESG factors including sustainable investing practices. Over the 163 articles analyzed, quantitative techniques were the most common, with 107 articles using quantitative methods for analyzing ESG-related information as well as investment results. Furthermore, 19 articles were recognized as using qualitative methodologies, including comprehensive interviews, case reports, and qualitative analytic methods to investigate subtle elements of ESG concerns and sustainable investing practices. Also, 37 articles used both qualitative and quantitative techniques in mixed-methods approaches to provide.

A comprehensive understanding of the nuances of ESG factors as well as sustainable investment techniques.



Source: Primary Data

Figure 3: Total Count of Approach.

CONCLUSION

The integration of Environmental, Social, and Governance (ESG) criteria into investment strategies is reshaping the global financial landscape. The growing demand for sustainable investments reflects a broader recognition that long term value can be derived from companies that prioritize sustainability alongside financial performance. The findings indicate a significant rise in ESG-focused investment products, alongside evidence of their competitive financial returns compared to traditional investments. However, challenges such as the lack of standardized ESG metrics, concerns over greenwashing, and limited access to reliable ESG data remain critical barriers to widespread adoption. Despite these challenges, the opportunities for investors—such as long-term gains, better risk management, and improved corporate innovation—are substantial. As the financial industry moves toward greater ESG integration, ongoing policy support, enhanced transparency, and more robust measurement frameworks will likely lead to deeper, more effective ESG adoption across global markets.

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