



Evaluating the Viability of Sustainable Finance in Achieving Profitability and Equitability: A Literature Review

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Abstract:

This study evaluates the viability of sustainable finance in achieving profitability and equitability compared to traditional finance. Sustainable finance integrates Environmental, Social and Governance (ESG) criteria into financial services to support sustainable economic growth while addressing environmental and social challenges. The primary aim was to assess whether sustainable finance initiatives have been financially viable and profitable, and to what extent they have achieved equitable outcomes. The research questions guiding this study were: (1) Has sustainable finance been financially viable and profitable compared to traditional finance? (2) To what extent has sustainable finance achieved equitable outcomes? (3) What factors have influenced the profitability and equitability of sustainable finance initiatives?

A thematic literature review was conducted, reviewing approximately 1450 papers for relevancy, and analysing in depth approximately thirty peer reviewed articles, scholarly books, and credible institutional reports published from the year two thousand onwards. The study is grounded in stakeholder theory, sustainable development theory, and social equity theories, providing a knowledge framework for understanding the intersection of profitability and equitability in sustainable finance.

Findings indicate that sustainable finance initiatives can achieve profitability objectives when effectively integrating ESG factors, though results vary based on market context and implementation strategies. Equitability outcomes are also achievable, particularly when initiatives are well-designed, inclusive, and supported by effective legislation. However, challenges such as implementation difficulties, lack of standardization, and regional differences can impede success.

In conclusion, sustainable finance holds promise as a strategy that aligns economic success with social responsibility. Realizing its full potential requires addressing existing challenges, including improving ESG integration, standardizing metrics, and enhancing supportive policies. Limitations of the study include reliance on existing literature, potential publication biases in sources, and focus on English-language sources, which may affect generalizability. Future research should focus on developing standardized ESG finance metrics, exploring long-term impacts, and examining strategies to overcome implementation challenges.

Keywords:

Sustainable finance, profitability, equitability, ESG integration, thematic literature review, stakeholder theory, social equity, financial performance.

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1 Introduction

In the 21st century, the global financial sector has undergone a significant transformation with the emergence of sustainable finance as a response to pressing environmental and social challenges. Sustainable finance refers to financial services that integrate environmental, social, and governance (ESG) criteria into businesses and investment decisions for the lasting benefit of both clients and society at large (UNEP FI, 2016). This approach encompasses a range of financial activities, such as investment, lending, and insurance, which support sustainable economic growth while reducing pressures on the environment and addressing social inequalities.

The importance of sustainable finance lies in its potential to mobilize capital towards activities that promote sustainable development, combat climate change, and empower social equity (OECD, 2017). As the impacts of environmental degradation and social inequality become more pronounced, there is a growing recognition among investors, financial institutions, and policymakers of the need to align financial practices with sustainability goals. Sustainable finance serves as a tool for change by directing investments into renewable energy, sustainable infrastructure, and social enterprises, which together work to foster an economy that is resilient, inclusive, and environmentally conscious.

1.1 Original goals of sustainable finance

Profitability

A fundamental aim of sustainable finance is to generate competitive financial returns while contributing to environmental sustainability and social well-being. Investors and financial institutions aim to achieve profitability by investing in companies and projects that are not only responsible actors in preserving the environment and society, but also demonstrate strong financial performance (Eccles et al., 2014). The integration of ESG factors is believed to enhance risk management and present opportunities that traditional financial analysis might overlook. By focusing on long-term value creation, sustainable finance initiatives aim to deliver returns that are at least equal to, or exceed, those of traditional investments (Friede et al., 2015).

Equitability

Equitability in sustainable finance is the intention to promote social equity and ensure a fair distribution of benefits arising from financial activities. This involves supporting projects that address social issues such as poverty, inequality, and lack of access to essential services like healthcare and education. Sustainable finance initiatives work to empower marginalized communities by facilitating access to capital, fostering inclusive economic growth, and promoting fair labour practices. By embedding social considerations into financial decision-making, sustainable finance aims to contribute to a more equitable society where the benefits of economic development are shared broadly (Klapper et al., 2016).

Environmental sustainability

A core aim of sustainable finance is to promote environmental sustainability by promoting investment of financial resources into projects and companies that have a positive impact on the planet and environment. This involves supporting initiatives that address environmental challenges, such as climate change, resource depletion, and biodiversity loss. Sustainable finance facilitates investments in renewable energy, energy efficiency, sustainable agriculture, and green infrastructure, contributing to the transition toward a low-emission and resource-efficient economy (OECD, 2017). By integrating environmental considerations into financial decision-making, investors and financial institutions aim to mitigate environmental risks and capitalize on opportunities arising from environmental innovations. This approach not only helps in managing risks associated with environmental degradation, but also aligns financial practices with global environmental goals (UNEP FI, 2016).

1.2 Problem statement

Despite the growing prominence of sustainable finance, there is a notable gap in understanding its effectiveness in achieving both profitability and equitability (Sachs et al., 2019). While the integration of ESG factors is widely advocated, questions remain regarding whether sustainable finance consistently delivers competitive financial returns compared to traditional financial models (Pedersen et al., 2021). Additionally, the extent

to which sustainable finance initiatives have succeeded in promoting social equity and ensuring a fair distribution of benefits is not thoroughly examined (Scholtens, 2006). This gap in knowledge presents a challenge for investors, financial institutions, and policymakers who need evidence-based insights to make informed decisions. Without a comprehensive evaluation of sustainable finance's performance in terms of profitability and equitability, it is difficult to evaluate its true viability and potential impact. Therefore there is a need to assess the effectiveness of sustainable finance initiatives to better inform future practices, studies, and policies.

1.3 Aim of the study

The primary objectives of this thesis are to assess the financial viability (profitability) of sustainable finance initiatives, and to evaluate the social equitability success of sustainable finance. Additionally, the study aims to identify factors influencing profitability and equitability within sustainable finance.

Core research question:

“Has sustainable finance been financially viable and profitable compared to traditional finance?”

Secondary research questions:

“To what extent has sustainable finance achieved equitable outcomes?”

“What factors have influenced the profitability and equitability of sustainable finance initiatives?”

To address these research questions, this study adopts a thematic literature review methodology. A thematic literature review is chosen because it enables a comprehensive synthesis of existing research on sustainable finance's profitability and equitability outcomes. By systematically analysing and critically evaluating a wide range of scholarly articles, reports, and empirical studies, the research can identify patterns, themes, and gaps in the existing knowledge of the field. This method allows for an in depth understanding of how sustainable finance initiatives have performed across different contexts and time periods. It is particularly effective for answering the research questions accurately, as it draws upon established findings and theoretical frameworks to assess the

financial viability and social impact of sustainable finance without the limitations of primary data collection.

1.4 Contributions and limitations

This thesis aims to contribute to the existing literature by providing a thematic secondary analysis of sustainable finance's effectiveness in achieving its original goals of profitability and equitability. By synthesizing findings from various scholarly sources, the research offers insights into the performance of sustainable finance initiatives over the past two decades. This contribution is significant in addressing the knowledge gap and providing a deeper understanding of sustainable finance's role in the future of the global financial landscape.

Practical implications

For financial institutions, investors, and policymakers, the findings of this study have practical relevance. Understanding the factors that influence the profitability and equitability of sustainable finance can inform investment strategies, product development, and policy formulation. Additionally, this work seeks to outline some potential avenues for future research possibilities to further develop understanding in this field.

Limitations

This study focuses on the evaluation of sustainable finance initiatives implemented in the 21st century, reflecting the period when sustainable finance gained significant momentum. The research encompasses several types of sustainable finance instruments, such as green bonds, sustainable investment funds, and impact investing. The analysis is global in scope, considering examples and data from different regions to provide a comprehensive perspective. The study is conducted through an extensive literature review, relying on academic journals, industry reports, and credible institutional publications. It does not involve primary data collection through surveys or interviews. While the study addresses both environmental and social aspects of sustainable finance, the emphasis is on assessing profitability and equitability outcomes. To that end, environmental impacts are considered only as far as they relate to financial performance and social equity.

Structure of this work

Following chapter 1 (Introduction), this work continues into chapter 2, which details the methodology of the study, including choice of method, literature selection, research procedure, data analysis, considerations of validity, reliability, and ethical considerations. Chapter 3 presents the theoretical framework, presenting relevant theoretical literature, and the conceptual framework guiding the analysis. Chapter 4 reports the results of the study, examining the positive, negative, and mixed or neutral financial and social outcomes of sustainable finance, comparing findings, exploring influencing factors, and assessing equitability performance. Chapter 5 details the discussion of the results and reflects on the methodology. Finally, chapter 6 concludes the thesis by summarizing key findings and drawing conclusions on the viability of sustainable finance.

2 Methodology

The research methodology is the process through which methods to conduct the research of an academic work are selected, and to answer the research questions and achieve the aims set. The selection of methods is highly dependent on the aims, topic, scope, and knowledge availability in the field of study. In the field of business, two notable approaches are used. These approaches are the quantitative method, and the qualitative method. The method used in this thesis is a thematic literature review, which is a subset of qualitative methods. (Bryman & Bell, 2015)

2.1 Choice of method

This study adopts a traditional literature review methodology to evaluate the viability of sustainable finance in achieving its dual goals of profitability and sustainability. The aim is to synthesize existing research to provide an understanding of how sustainable finance initiatives have performed since their inception in the beginning of the 21st century. A literature review is suitable for this study because it allows for an in-depth exploration of the current state of knowledge, identification of key themes, and critical analysis of findings from multiple studies (Bryman & Bell, 2015). By integrating perspectives from various empirical studies, this review seeks to assess whether sustainable finance has met its original objectives and to identify gaps in the literature that warrant further research.

2.2 Choice of literature

The selection of literature is a critical component of this study, as it determines the scope, depth, and validity of the findings. To ensure a comprehensive and unbiased collection of relevant literature, a systematic search strategy was employed, focusing on scientific-academic sources to maintain the scholarly quality of the review (A. Booth et al., 2016).

2.2.1 Databases and sourcing

The literature search was primarily conducted using several academic databases accessible through Arcada's library resources. These databases include Emerald Insight, ABI/INFORM (ProQuest), EBSCO, SAGE Journals, ScienceDirect, SpringerLink, and Perlego. Additionally, Google Scholar was used as a supplementary search tool to aid in looking for any relevant publications not available in the primary databases. These databases were chosen for their extensive collections of peer-reviewed papers and journals in the fields of business, finance, sustainability, and environmental studies. Their accessibility through Arcada's library ensured that the literature gathered was both credible and readily available for detailed study.

2.2.2 Keywords and search terms

A list of keywords and search terms was developed to attempt to capture the full scope of the topic. The primary keywords included "sustainable finance," "green finance," "environmental finance," "climate finance," "green bonds," and "green banking." To focus on profitability aspects, terms such as "financial performance," "profitability," "returns," "financial viability," and "investment performance" were used. For the equitability aspects, keywords like "social equity," "equitable outcomes," "social inclusion," "fair distribution," and "socioeconomic impact" were included.

Search strings were constructed using Boolean operators to refine search results. For example, combinations such as "sustainable finance AND profitability," or "green bonds AND returns" were utilized. Quotation marks were used to ensure exact phrase matching. This systematic approach to keyword selection and search string construction aimed to retrieve a comprehensive set of potentially relevant literature while minimizing irrelevant results. (Bryman & Bell, 2015)

2.2.3 Inclusion and exclusion criteria

Objective inclusion and exclusion criteria were established to select literature that is most relevant and scientifically credible (Creswell & Creswell, 2018). The inclusion criteria comprised studies published from the year 2000 onward, focusing on the developments in the 21st century after the more mainstream incorporation of sustainability practices. Only publications in English were considered to ensure comprehension and accuracy in evaluation. The literature was limited to peer-reviewed journal articles, scholarly books, and credible institutional reports to maintain a high standard of trust and scientific rigor. Studies had to directly or nearly directly address the profitability and/or equitability of sustainable finance initiatives and exhibit clear methodology and data analysis.

The exclusion criteria involved omitting non-scientific sources such as newspaper articles, opinion pieces, blog posts, and other non-peer-reviewed materials. Studies not related to sustainable finance or not addressing the profitability or equitability aspects were excluded to maintain the focus of the review. Duplicate publications or studies already included in the review were also omitted to prevent redundancies.

2.2.4 Screening and selection process

The literature selection involved several stages to trim down the number of publications to a manageable size suitable for detailed analysis. Initially, the specified databases were searched using the defined keywords and search strings, yielding about 1450 articles and texts. The titles and abstracts of these records were reviewed to assess their relevance based on the inclusion criteria. Studies with relevant titles and keywords proceeded to an abstract review, and if relevant, proceeded again to a full-text review, where a more detailed assessment was conducted. This process involved evaluating the study's objectives, methodology, and findings to determine its suitability for inclusion in the review (A. Booth et al., 2016).

Through this systematic screening process, the number of publications was reduced to about 80 works that could be reasonably studied in detail. This careful selection ensured that the literature included in the review was both relevant to the research questions and of high scientific quality. Further detailed reading narrowed the final count of relevant literature down to about 30 papers, chosen for their relevance, age, and applicability to this study.

2.3 Research procedure

The analysis of the collected information was conducted through a systematic and thematic approach. This goal was not just to describe the literature but to identify key themes and patterns that address the research questions, allowing for a comprehensive understanding of the topic across different publications (Creswell & Creswell, 2018).

2.3.1 Data extraction and management

For each selected publication, relevant data was extracted and organized systematically (A. Booth et al., 2016). This included bibliographic information such as author(s), publication year, title, and source. The study objectives and research questions were noted to understand the focus of each publication. Details about the methodology, including research design, data sources, and analytical methods were recorded to assess the scientific validity and comparability of the studies.

Key findings related to profitability and equitability were extracted, along with the authors' conclusions and interpretations. Brief notes were made on how each study addressed the research questions of this review. Reference management software was used to organize citations and manage the literature effectively, ensuring accurate referencing and ease of retrieval of sourced during the review process.

2.4 Analysis of gathered data

An inductive thematic analysis was conducted to identify and analyze patterns within the data (Saunders et al., 2016). Each study was read thoroughly, and significant findings and concepts were noted. Codes were assigned to these findings, representing key ideas related to the profitability and equitability of sustainable finance. These codes were then grouped into broader themes reflecting common topics, such as the financial performance of sustainable finance initiatives, the degree of social impact of sustainable finance initiatives, factors influencing profitability and equitability, and factors influencing the degree of achieving these goals.

The themes were reviewed and refined to ensure they accurately represented the data and were relevant to the research objectives. This process enabled the identification of different perspectives on each topic across various publications. By systematically comparing the content of the different studies, the analysis aimed to reveal patterns,

agreements, and contradictions in the literature, providing a nuanced understanding of how sustainable finance has performed in terms of profitability and equitability (Creswell & Creswell, 2018).

2.4.1 Synthesis of findings

The findings from different studies were synthesized to provide a comprehensive understanding of each theme (Creswell & Creswell, 2018). This involved integrating perspectives from various authors, identifying common findings and differences, and evaluating the strength of the evidence presented. The synthesis aimed to answer the research questions by drawing reasonable conclusions from the collective insights of the literature.

For instance, in assessing the financial viability of sustainable finance, studies were compared on metrics such as returns on investment, profitability ratios, risk assessments, and market valuations. Similarly, the equitability aspect was analysed by examining studies that assessed social inclusion, fair distribution of benefits, and socioeconomic impacts of sustainable finance initiatives. This synthesis provided an overview of the current state of knowledge, highlighting areas of consensus and debate within the academic and scholarly community (Saunders et al., 2016).

2.5 Validity and reliability

In research methodology, validity and reliability are fundamental concepts that determine the quality and credibility of a study. Validity refers to the extent to which a research instrument or method measures what it is intended to measure (Creswell, 2014), and concerns the accuracy and truthfulness of the findings. Validity can further be divided into internal validity and external validity. Internal validity is the degree to which the results of a study are attributable to the variables that the researcher intentionally manipulated, measured, or observed, rather than to other variables (Bryman & Bell, 2015). External validity is the extent to which the findings of a study can be generalized to other contexts, settings, or groups beyond the study conditions (Saunders et al., 2016).

Reliability refers to the consistency and dependability of the research results over time and across different observers (Saunders et al., 2016). A reliable study yields the same

results when repeated under similar conditions. Reliability encompasses internal reliability and external reliability. Internal reliability is defined as the consistency within the research instrument or procedure itself. External reliability is defined as the extent to which independent researchers can reproduce the study and obtain comparable results (Bryman & Bell, 2015).

Ensuring both validity and reliability is extremely important for establishing the trustworthiness of research findings (Guba & Lincoln, 1994).

2.5.1 Ensuring validity in this study

To ensure the validity of this literature review, several strategies were employed. Transparency and replicability were highlighted as a key focus, and a transparent methodology was maintained by documenting each step of the research process, including the search strategy, selection criteria, and analysis procedures. This transparency allows for replicability, enabling other researchers to follow the same procedures and verify the findings therefore enhancing internal validity (Yin, 2018).

By utilizing multiple reputable databases (as listed earlier), this study aimed to capture a wide range of scholarly literature. This comprehensive approach minimizes the risk of omitting relevant studies, thereby strengthening external validity, and ensuring the review accurately reflects the current state of knowledge in the field (A. Booth et al., 2016).

The literature selected consisted of peer-reviewed journal articles, scholarly books, and credible institutional reports. By relying on scientifically rigorous sources, the study reduces the likelihood of incorporating invalid or incorrect data, thereby enhancing the overall validity of the findings (Creswell & Creswell, 2018).

Each selected study was critically viewed to assess its methodological rigor, relevance, and contribution to the research questions. This involved evaluating the research design, data collection methods, analytical techniques, and the validity of the conclusions drawn by authors. Critical evaluation ensures that only high-quality studies provide fuel to findings, improving internal validity (Guba & Lincoln, 1994).

Triangulation was employed by comparing and contrasting findings across multiple studies. By synthesizing evidence from various sources and perspectives, the study validated conclusions through cross-verification, enhancing both internal and external validity (Patton, 2015).

2.5.2 Ensuring reliability in this study

To ensure the reliability of the research, certain measures were taken. The inclusion and exclusion criteria were applied consistently across all studies during the selection process. This objectivity ensures that the selection is replicable and that comparable results would be obtained if the study were repeated, contributing to external reliability (Bryman & Bell, 2015).

A standardized data extraction methodology was used to systematically collect relevant information from each study. This uniformity in data collection reduces the potential for errors and biases, ensuring that the findings are consistent and reliable (Saunders et al., 2016).

Data extraction and analysis were double-checked for accuracy. Any discrepancies or uncertainties were resolved through re-examination of the original sources. This meticulous attention to detail minimized errors and increases the dependability of the research findings (Gibbs, 2007).

2.5.3 Addressing limitations

Access constraints were considered to be the primary limitation. Some studies may have been inaccessible due to paywalls or limited availability, potentially affecting the comprehensiveness of the literature selection. Although the primary databases provided extensive access, the exclusion of pertinent studies due to access restrictions may influence the findings, impacting both validity and reliability (A. Booth et al., 2016).

A secondary limitation was identified as variations in definitions and measurements. Differences in how profitability and equitability are defined and measured across studies posed challenges in comparison and synthesis. Efforts were made to account for these differences by carefully analysing the context and definitions used in each study. However, this variation may affect the reliability of conclusions drawn across diverse studies (Saunders et al., 2016).

By acknowledging these limitations, the study emphasizes transparency and provides context for interpreting the findings. It highlights areas where caution should be noted and suggests opportunities for future research to address these gaps.

2.6 Ethical considerations

Research ethics refers to the moral principles that guide researchers in conducting and reporting research responsibly and with integrity (Resnik, 2015). It ensures the credibility of research and protection of intellectual property, contributing to the advancement of knowledge (Israel & Hay, 2006). Key ethical principles include honesty, objectivity, transparency, and respect for intellectual property rights (Bryman & Bell, 2015).

2.6.1 Ethical considerations in this study

While this literature review does not involve human respondents or personal data, several ethical considerations were considered and addressed to uphold academic integrity and ethical research standards.

Avoidance of plagiarism was kept in the highest consideration. To maintain academic honesty, all sources of information, ideas, and data were faithfully cited using APA 7th edition referencing guidelines. Direct quotes were enclosed in quotation marks with appropriate citations, and paraphrased content was rewritten in my own words while acknowledging and referencing the original creators (Creswell & Creswell, 2018).

Mendeley Reference Manager was used to organize citations systematically, minimizing the risk of unintentional plagiarism.

Accurate representation of sources was seen as a key value to consider in this work. Efforts were made to faithfully present findings and arguments of reviewed studies accurately, without misrepresentation or distortion. Work was also done to maintain the original contextual integrity and meaning intended by the works' original authors (W. Booth et al., 2016). Additionally, efforts were made to critically evaluate sources and assess them based on methodological rigor and relevance in order to avoid personal biases.

To ensure transparency and reproducibility, the methodology was documented including the research design, search strategy, inclusion and exclusion criteria, and analytical procedures. Significant details have been provided for other researchers to replicate the study or build upon its findings. (Saunders et al., 2016)

In the pursuit of objectivity, the work includes a wide range of studies representing different perspectives on sustainable finance's profitability and equitability. Neutral language was used throughout the analysis to maintain an unbiased tone. Studies with

conflicting findings were brought to discussion and considered, to provide a balanced view.

This thesis was written in accordance with Arcada University of Applied Science's ethical guidelines and academic integrity policies.

2.6.2 Ethical summary

By adhering to these ethical principles, this study upholds academic integrity and contributes responsibly to the scholarly discourse on sustainable finance. These ethical considerations ensure that the research is conducted with honesty, respect, and professionalism in order to further reinforce the credibility of any findings.

3 Theoretical framework

3.1 Relevant theories

To evaluate the viability of sustainable finance in achieving profitability and equitability, it is essential to ground the analysis in established theoretical frameworks. This chapter defines three key theories that provide context into how sustainable finance operates within the broader economic and social context: Stakeholder Theory, Sustainable Development Theory, and Social Equity theories.

3.1.1 Stakeholder theory

Stakeholder theory, introduced by Freeman (1984), states that organizations should create value not only for shareholders, but for all stakeholders affected by the organization's actions. Stakeholders encompass employees, customers, suppliers, communities, and even the environment. This theory challenges the traditional shareholder-centric view by suggesting that long term success depends on addressing the interests of all stakeholders. In the context of sustainable finance, stakeholder theory highlights the importance of integrating environmental, social, and governance (ESG) considerations into financial decision-making. Financial institutions and investors increasingly recognize that their actions have far reaching impacts on various stakeholder groups. By adopting sustainable finance practices, organizations can enhance stakeholder relationships by addressing their concerns, leading to stronger relationships, improved reputation, and increased trust

(Clarkson, 1995). Additionally, considering ESG factors helps in identifying potential risks that could affect financial performance, such as regulatory changes or social unrest, which can help mitigate risks (Eccles et al., 2014). Aligning business strategies with stakeholder interests can result in mutually beneficial outcomes, promoting both profitability and social welfare, a concept known as creating shared value (Porter & Kramer, 2011).

As such, stakeholder theory provides a theoretical foundation for understanding how sustainable finance can be profitable while also advancing social equity by aligning the interests of financial institutions with those of a broader set of stakeholders.

3.1.2 Sustainable development theory

Sustainable development theory is rooted in the concept of meeting present needs without compromising the ability of future generations to meet their own needs, as presented by the Brundtland Commission (1987). This theory emphasizes the integration of economic growth, environmental protection, and social equity as interconnected goals.

In relation to sustainable finance, sustainable development theory suggests that financial practices should promote long-term economic growth by investing in projects that contribute to sustainable development over the long term (Barbier, 1987). Financial activities should also protect the environment by supporting projects that minimize environmental degradation and promote resource efficiency (Daly, 1990). Furthermore, the theory advocates for advancing social inclusion by expanding access to financial services to underserved populations, thereby reducing inequalities (Sen, 1999).

By aligning financial activities with sustainable development principles, sustainable finance seeks to facilitate investments that drive economic growth while ensuring environmental stewardship and social well-being.

3.1.3 Social equity theories

Social equity theories focus on fairness, justice, and the equitable distribution of resources and opportunities within society. Key concepts from these theories include Rawls' Theory of Justice, and the Capability Approach.

John Rawls (1971) proposed that a fair society is one in which social and economic inequalities are arranged to benefit the least advantaged members. This principle advocates for policies that promote equity and protect vulnerable populations. Amartya

Sen's Capability Approach (1999) emphasizes the importance of expanding individuals' capabilities (freedoms) to achieve well-being. According to this approach, equitable outcomes are achieved by providing access to resources that enable people to pursue the lives they value and wish to attain.

Applying social equity theories to sustainable finance highlights the importance of inclusive finance, ensuring that financial services are accessible to marginalized groups, which promotes economic empowerment and can reduce poverty (Demirguc-Kunt et al., 2018). It also emphasizes the fair distribution of benefits by designing financial products and investments that deliver benefits across different segments of society, not just the currently-wealthy (Atkinson, 2015). Incorporating ethical considerations into financial decision-making is essential to avoid actions that could worsen social inequalities (Palazzo & Scherer, 2006).

These theories support the notion that sustainable finance should not only aim for profitability but also strive to achieve equitable outcomes that enhance social justice.

3.2 Conceptual framework

To analyze the relationship between sustainable finance, profitability, and equitability, a conceptual framework was developed based on the connected workings of the theories listed above. This framework serves as a guide for examining how effectively sustainable finance initiatives have achieved both financial returns and promotion of social equity.

3.2.1 Framework overview

The conceptual framework is comprised of several components. At its core are the sustainable finance practices, which include financial activities that integrate ESG criteria, such as sustainable investment, green bonds, or impact investment. These practices are expected to lead to profitability outcomes, including financial returns generated from sustainable finance initiatives, such as revenue growth, return on investment (ROI), and risk-adjusted performance.

At the same time, sustainable finance practices aim to produce equitable outcomes, representing the social equity impacts resulting from these initiatives, such as reduced income inequality, increased access to financial services, and improved social welfare. Influencing factors, both external and internal, affect the relationship between sustainable

finance practices and outcomes. These factors include things like government regulations, market demand, organizational strategies, and stakeholder expectations.

3.2.2 Relationships within the theoretical framework

Drawing from Stakeholder Theory, sustainable finance practices are expected to enhance profitability by addressing stakeholder concerns, improving reputation, and mitigating risks associated with ESG issues (Freeman, 1984). Guided by Social Equity Theories, these practices aim to promote equitable outcomes by investing in projects that benefit underserved communities and support social initiatives (Rawls, 1971; Sen, 1999).

The framework acknowledges an implied synergy between profitability and equitability, where successful sustainable finance initiatives and generate financial returns while delivering social benefits. However, difficulties may arise if profitability is pursued at the expense of equity, or vice versa. Influencing factors play a critical role in shaping these relationships. Sustainable development theory emphasizes the role of external factors such as governmental regulations, market conditions, and societal expectations in determining the effectiveness of sustainable finance (Brundtland Commission, 1987). Internal factors like organizational culture, strategic priorities, and economic situation (access to cash) also significantly impact the outcomes.

3.2.3 Application of theoretical framework

This framework guides the analysis by structuring the literature review analysis process. It provides a metric by which existing studies are examined, focusing on how sustainable finance practices influence profitability and equitability, and identifying factors that affect these outcomes. By identifying key theoretical relationships, the theoretical framework helps precisely identify areas where sustainable finance may fall short in achieving its goals, such as instances where profitability is prioritized over equality, or equality is prioritized over profitability.

4 Results

Financial performance of sustainable finance

This section contains a thematic analysis of the financial performance of sustainable investments, incorporating studies that report positive, negative, and mixed or neutral

outcomes. The chapter is divided into three sub-sections: positive, negative, and neutral or mixed findings. By examining a wide range of empirical and meta-analysis studies, this section aims to present a balanced perspective on whether sustainable finance initiatives achieve their profitability objectives. The analysis includes critical evaluations of each study's findings and methodologies, comparisons across studies, and discussions of factors influencing the varied outcomes.

4.1 Positive financial outcomes of sustainable finance

The studies presented in this subchapter suggest that integrating ESG factors into business practices and investment decisions can enhance profitability, improve risk management, and contribute to long-term value creation. Common themes and factors influencing these positive financial outcomes include effective ESG integration, investor demand and market dynamics, technological advancements, risk mitigation, and building investor trust.

4.1.1 Enhanced profitability and financial performance

The degree which companies effectively integrate ESG factors into their operations plays a critical role in realizing positive financial outcomes. Studies have shown that firms with strong ESG performance tend to exhibit better financial results due to improved operational efficiencies, innovation, and competitive advantages.

Friede et al., (2015) conducted an extensive meta-analysis aggregating evidence from over two thousand empirical studies examining the relationship between ESG criteria and corporate financial performance (CFP). This study represents one of the most comprehensive overviews in the field, providing valuable insights into how ESG integration impacts financial outcomes.

In their analysis, the authors found that approximately 90% of the studies reported a non-negative relationship between ESG and CFP, with a majority of that figure indicating a positive correlation. The positive impact of ESG integration was observed across both market-based measures, such as stock returns, and accounting-based measures, including ROA and ROE. The positive ESG-CFP relationship appeared stable over time, suggesting a robust business case for ESG investing.

Regional differences were also noted, with the positive relationship being particularly strong in North America and emerging markets. In Europe, while still positive, the results

were slightly less pronounced. Positive effects were observed across various asset classes, including equities, corporate bonds, and real estate. Both portfolio studies, focusing on investment performance, and non-portfolio studies, focusing on corporate performance, demonstrated positive ESG-CFP relationships, with non-portfolio studies showing slightly stronger effects.

Critical Evaluation: The strength of this study lies in its comprehensive scope, covering a vast array of empirical research, which enhances the reliability and general applicability of the findings. By systematically aggregating results, the authors mitigate the impact of individual study biases and methodological differences. However, potential limitations include the possibility of publication bias, as studies reporting significant positive results may be more likely to be published than those with non-significant or negative findings. The heterogeneity of the included studies, with widely varying methodologies, sample periods, geographic focuses, ESG definitions, and financial performance measures, introduced variability that may affect the consistency of the aggregated results. Differences in how ESG factors and financial performance are measured and influence outcomes, and the lack of standardized metrics across these studies complicated direct comparisons.

Aslan-Çetin et al., (2024) conducted a panel data analysis on companies listed in the BIST Sustainability Index in Türkiye. Utilizing ESG scores calculated by S&P Global for twenty-six companies over the period of 2018-2022, they found that ESG factors had a significant and positive effect on financial performance indicators, including return on assets (ROA), return on equity (ROE), net profit margin (NPM), and asset growth (AGR). However, they observed a negative effect on the market-to-book ratio (MBR), suggesting that while operational profitability improved, market valuation metrics might be influenced by other factors.

Critical Evaluation: The study provides convincing evidence for the positive impact of ESG factors on financial performance within the Turkish market. However, its limitations include a small sample size of listed companies, and focus on a single emerging market, which may affect the general applicability of the findings to other regions or more diversified economies.

Whelan et al., (2021) conducted a comprehensive review of over one thousand studies published between 2015 and 2020. They found a positive relationship between ESG

integration and financial performance in the majority of cases examined. Specifically, 59% of investment studies showed similar or better performance relative to conventional approaches.

Critical Evaluation: While the meta-analysis provides compelling evidence of the positive impact of ESG integration, the heterogeneity of the studies reviewed, including variations in definitions, metrics, and methodologies, poses challenges in drawing definitive conclusions.

Investor demand and market dynamics

Growing investor demand for sustainable investment options has driven positive financial outcomes for companies that align with ESG principles. Investors increasingly consider ESG factors in their decision-making processes, which can enhance a company's access to capital and improve market valuation.

Oestreich & Tsiakas (2024) assessed the empirical relationship between firm profitability and carbon emission intensity using data on S&P500 listed companies. They found a strong negative correlation: firms with high carbon emission intensity had low profitability, and vice versa. This finding was statistically significant in both portfolio sorts and Fama-MacBeth regressions and was robust across various subsamples and alternative profitability measures.

Critical Evaluation: While the study provides compelling evidence linking lower carbon emissions to higher profitability among large U.S. firms, its focus on a specific market segment may limit the applicability of results to smaller companies or firms in other countries. Additionally, using estimated carbon emission intensity for larger cross-section of firms may introduce measurement errors.

4.1.2 Risk mitigation and financial stability

Sustainable finance practices have been linked to improved risk management and financial stability. Companies with strong ESG performance may be better able to manage market volatility and downturn.

Nofsinger & Varma (2014) analyzed the performance of socially responsible mutual funds during market crises compared to matched conventional funds. They found that socially responsible funds outperformed during periods of market crises, offering better downside protection. This asymmetric return pattern was attributed to the funds' focus on

ESG attributes and was especially pronounced in ESG funds using positive screening techniques.

Critical Evaluation: The study provides valuable insights into the risk mitigation benefits of sustainable investments during market downturns. However, its focus on U.S. mutual funds may not capture the performance of other types of sustainable investments or in different geographic regions.

Silva et al., (2024) evaluated the performance of green bond portfolios under climate uncertainty, comparing them with conventional and “black” (environmentally unfriendly) bond portfolios. Their results showed that while green bond portfolios underperformed in times of lower climate policy uncertainty, they significantly improved their performance and even outperformed black bond counterparts when concerns surrounding climate risk rose.

Critical Evaluation: This study highlights the conditional performance of green bonds based on climate policy uncertainty, suggesting that green bonds may offer resilience in the face of climate-related risks. Limitations include the recent emergence of the green bond market, and potential data constraints.

Giese et al. (2019) investigated how ESG factors affect equity valuation, risk, and performance. They found that companies with strong ESG characteristics benefited from lower costs of capital, higher valuations, and lower exposures to tail risk. The research indicates that ESG information impacts how a company’s value and performance are assessed by influencing both general market risks (systematic risks) and the company’s own unique risks (idiosyncratic risks).

Critical Evaluation: While comprehensive and methodologically robust, the study may be limited by potential biases in ESG ratings and the challenge of isolating the impact of ESG factors from other variables in influencing financial performance.

Lins et al. (2016) examined the value of corporate social responsibility (CSR) during the 2008-2009 financial crisis. They found that firms with high social capital, measured as CSR intensity, had stock returns that were four to seven percent higher than firms with low social capital. High-CSR firms also experienced higher profitability, growth, and sales per employee.

Critical Evaluation: This study effectively demonstrates the benefits of CSR during a period of crisis. However, relying on CSR intensity as a proxy for social capital may not capture all dimensions of stakeholder trust. Additionally, the focus on a specific period of financial crisis may limit the applicability of findings to other contexts.

4.1.3 Common factors contributing to positive financial outcomes

The common themes and factors influencing positive financial outcomes in sustainable finance observed in the studies reviewed include effective ESG integration, investor demand and market dynamics, technological advancements, risk mitigation, and long-term value creation and trust. Companies that strategically integrate ESG factors into their operations and decision-making processes tend to realize enhanced financial performance, leading to improved efficiency, innovation, and risk management. Growing investor interest in sustainability drives capital toward companies with strong ESG performance, improving their access to financing and potentially increasing stock valuations. Innovations in technology, particularly fintech, might enable the expansion of sustainable finance initiatives and inclusive finance, contributing to profitability and reaching underserved markets. Sustainable investments often provide better downside protection during market crises, as companies with strong ESG practices may be more resilient to economic shocks and regulatory challenges. Additionally, building trust with stakeholders through sustainable practices can enhance a company's reputation, leading to customer loyalty, employee satisfaction, and investor confidence, all of which contribute to long-term financial success.

4.1.4 Summary of positive financial outcomes

The collective evidence from these studies indicates that sustainable finance initiatives can lead to positive financial outcomes for companies and investors. Effective ESG integration, investor demand, technological advancements, risk mitigation, and building investor trust are key factors contributing to these positive results. While there are limitations and challenges, such as measurement inconsistencies and potential biases, the overall findings support the viability of sustainable finance as a strategy that aligns profitability with sustainability objectives. Companies and investors embracing sustainable finance practices may enhance their financial performance while also contributing to broader social and environmental goals.

4.2 Negative financial outcomes of sustainable finance

While many studies highlight the financial benefits of sustainable finance, some research indicates that these initiatives may not always lead to superior financial performance compared to traditional financial investments. This section examines studies that report negative financial outcomes, exploring reasons and factors contributing to these results.

4.2.1 Underperformance of sustainable investments

Bakshi (2024) conducted an empirical analysis of green versus non-green stocks in India using the Fama-French five-factor model. The study created portfolios of green and non-green stocks, with the green portfolio comprising companies included in sustainability indices such as Nifty ESG, BSE Carbonex, and BSE Greenex. The non-green portfolio consisted of major greenhouse gas (GHG) emitters and non-sustainable automotive stocks. Analyzing daily returns from 2013 to 2023, the study found that the non-green portfolio outperformed the green portfolio over the decade. Non-green companies achieved higher abnormal returns, particularly in the automotive sector, and exhibited lower risk as indicated by lower beta values (lower individual volatility/risk compared to total market volatility). Sustainable indices performed the least among the portfolios analyzed.

Critical Evaluation: The study suggests that in the Indian market context, non-green companies may offer better financial returns than their green counterparts. However, limitations include concerns about the applicability of the Fama-French five-factor model in India and the potential for sector-specific biases. The handpicked nature of the portfolios may also limit the generalizability of the findings.

Renneboog et al. (2008) published a critical review of socially responsible investments (CRI), focusing on institutional aspects, performance, and investor behaviour. Analyzing a large sample of SRI funds from around the world, they found that SRI funds often underperform their conventional counterparts. Specifically, the study observed that SRI funds underperformed domestic benchmarks by between 2,2% to 6,5%, with more pronounced underperformance in the U.S. and U.K. markets. The authors concluded that existing research at the time does not unequivocally demonstrate that SRI investors are willing to accept suboptimal financial performance to pursue social or ethical objectives.

Critical Evaluation: The study highlights that ethical investing may come at a financial cost, particularly in certain markets. The study's comprehensive analysis across different regions also adds robustness to their findings. However, the data covers the period up to 2003, which may not reflect more recent trends in sustainable finance, or major legislative changes made in the years since. Additionally, variations in SRI definitions and practices across countries could influence the results of the study.

Humphrey & Tan (2014) analyzed the performance of Australian socially responsible investment funds (SRI funds) compared to conventional funds between the period of 1986-2005. The study found that SRI funds underperformed conventional funds on a risk-adjusted basis. The underperformance was attributed to the exclusion of certain stocks and sectors, which limited diversification and potential returns. The authors suggested that the negative screening commonly employed by SRI funds might lead to suboptimal portfolio construction.

Critical Evaluation: This study provides evidence from the Australian market that socially responsible investing may lead to lower financial performance. The long timeframe strengthens the validity of their findings. However, the investment landscape has evolved dramatically since 2005, and newer investment strategies and ESG integration methods may yield different results. The study's focus on negative screening may not capture the performance of SRI funds employing other strategies such as positive screening or ESG metric scoring.

4.2.2 Negative relationship between ESG factors and economic growth

Norocel & Vierescu (2024) investigated the impact of Environmental, Social, and Governance (ESG) factors and banking activity on economic growth from a macroeconomic perspective. Using panel regression models with fixed results, the study analyzed country-level ESG scores and banking sector contributions. The results indicated a negative relationship between ESG scores and economic growth in both the short and long term. Additionally, increased financial intermediation by the banking sector, used as a proxy for potentially green lending activity, did not necessarily enhance economic growth.

Critical Evaluation: This study challenges the assumption that ESG efforts inherently promote economic growth. The negative association may be influenced by the transitional

costs of implementing ESG practices or the possibility that ESG initiatives divert resources from more productive investments. The use of national-level data provides a broad perspective which brings certain value but overlooks firm-level nuances and details.

4.2.3 Impact of green credit on bank performance

Fata & Arifin (2024) analyzed the impact of green credit distribution on bank performance in Indonesia, utilizing data from forty-six banks between 2018 and 2022. The study found that green credit did not significantly influence credit risk, as measured by non-performing loans (NPL). Moreover, green credit had no impact on return-on-equity (ROE) and net interest margin (NIM) but negatively affected return on assets (ROA). Banks allocating a significant portion of their lending to green initiatives tended to experience a decline in profits.

Critical Evaluation: The findings suggest that green lending may not enhance bank profitability in the short term and could potentially reduce it. Factors such as higher costs associated with green projects, lack of borrower performance, or insufficient demand for green credit may contribute to these results. The study emphasizes the need for government support and policy adjustments to cultivate a green credit ecosystem.

4.2.4 Limitations of socially responsible investing on portfolio performance

Adler & Kritzman (2008) examined the potential costs associated with socially responsible investing due to constraints on portfolio optimization. The study argued that imposing social responsibility constraints on investment portfolios can lead to suboptimal diversification and lower expected returns. By restricting the investment “universe,” investors may exclude high performing assets, which could negatively impact portfolio performance (lost-opportunity cost) and shrink the theoretical maximum potential investment return(s).

Critical Evaluation: The study provides a theoretical perspective on how SRI constraints can negatively affect financial performance. The arguments are grounded in portfolio theory, highlighting the trade-off between ethical considerations and optimal diversification. However, the study is primarily theoretical and does not provide empirical data to support the assertions made. Their experiment was based on a theoretical Monte

Carlo simulation. Additionally, advancements in ESG integration and the development of more sophisticated investment strategies and products since 2008 may mitigate some of the concerns raised.

4.2.5 Exclusionary screening and reduced diversification

Several studies suggested that exclusionary screening practices in sustainable investing can lead to reduced diversification and potential underperformance. Both Renneboog et al. (2008) and Humphrey and Tan (2014) indicate that excluding certain industries or companies for ethical reasons may limit investment opportunities and negatively impact portfolio returns. Adler and Kritzman (2008) support this view by explaining that constraints on the investment “universe” can prevent investors from achieving the most efficient risk-return investment profiles.

4.3 Mixed or neutral financial outcomes of sustainable finance

Several studies report mixed or neutral financial outcomes associated with sustainable finance initiatives. These findings indicate that sustainable investments may perform similarly to conventional investments or that results vary depending on specific conditions.

4.3.1 Comparable performance of socially responsible funds

Cortez et al. (2009) investigated the performance of European socially responsible mutual funds (SRFs) investing globally or in the European market. Using both unconditional and conditional models, they assessed the funds’ performance compared to conventional and socially responsible benchmarks. The results showed that European SRFs generally exhibited neutral performance relative to both conventional and socially responsible indices. Performance estimates were slightly higher when funds were evaluated against socially responsible benchmarks. The funds were more exposed to conventional indices, and conventional benchmarks better explained fund returns than socially responsible benchmarks.

Critical Evaluation: The study suggests that investors can incorporate social screens into their investment choices without compromising financial performance. However, neutral performance implies that SRFs do not necessarily outperform conventional funds. The

reliance on European markets may limit the applicability of findings to other regions, as the EU has robust green-forward legislation which may impact green financial returns.

4.3.2 Meta-analysis of socially responsible investing performance

Revelli & Viviani (2015) conducted a meta-analysis of eighty-five studies comprising 190 experiments to test the relationship between socially responsible investing (SRI) and financial performance. The analysis found that considering corporate social responsibility (CSR) in stock portfolios is neither a weakness nor a strength compared to conventional investing considerations. The heterogeneous results in prior studies were attributed to various dimensions of SRI, such as thematic approaches, investment horizons, and data comparison models.

Critical Evaluation: The meta-analysis provides a comprehensive overview of the financial performance of SRI, highlighting that SRI portfolios generally perform similarly to conventional portfolios. The variability in results underscores the influence of methodological differences and the need for standardized measures in SRI research.

4.4 Comparison of findings

The collective evidence from these studies indicates that the financial performance of sustainable finance investments is multifaceted and context dependent. Many studies demonstrate that integrating ESG factors can enhance profitability, reduce risk, and contribute to long-term value creation. Effective ESG integration, alignment with investor preferences, and technological advancements are critical factors contributing to these positive outcomes.

Conversely, some research indicates that sustainable finance initiatives may underperform or negatively impact profitability, particularly in emerging markets or during transitional periods, with factors such as market inefficiencies, higher costs associated with green initiatives, and lack of government support contributing to these negative outcomes.

Additionally, several studies report that sustainable investments perform similarly to conventional investments, suggesting that investors can pursue sustainability objectives without necessarily sacrificing financial returns. The variability in results emphasizes the importance of context, investment strategies, and measurement approaches.

4.5 Factors influencing financial performance

This section briefly examines some factors identified from the analyzed literature to be influential in dictating how successful sustainable finance initiatives may be.

4.5.1 Effective ESG integration

The degree of ESG integration is a critical factor in realizing positive financial outcomes. Khan et al. (2015) emphasized the importance of focusing on material sustainability issues specific to an industry. Their study found that firms performing well on material sustainability issues significantly outperformed those with poor performance on these issues.

Critical Evaluation: This study underscores the significance of materiality in ESG integration. However, identifying material issues requires robust frameworks and may vary across industries, posing a challenge for standardized implementation.

4.5.2 Market context and investor behaviour

Investor demand and market dynamics play a key role in the performance of sustainable finance. Clark et al. (2014) noted that investors increasingly consider ESG factors in their decisions, leading to better financial performance for companies with strong sustainability practices. Conversely, in markets where sustainable finance is less mature, such as India or Indonesia, sustainable investments may underperform due to market inefficiencies or lack of investor awareness / interest.

4.5.3 Implementation challenges

Effective implementation of sustainable finance initiatives is crucial to producing profitable outcomes, but several challenges can impede adoption. One significant challenge is the transitional costs associated with implementing ESG practices, which may entail substantial expenses that could temporarily reduce profitability. Additionally, the regulatory and policy environment plays a vital role: insufficient government support or unclear policies can hinder the effectiveness of sustainable finance efforts. Furthermore, measurement and standardization pose difficulties as variations in defining and measuring ESG factors and financial performance contribute to inconsistent findings.

4.5.4 Summary of financial performance findings

The financial performance of sustainable finance investments is not universally positive or negative but varies based on several key factors, including market context, investor behavior, ESG integration effectiveness, and implementation challenges. While many studies support the notion that sustainable finance can enhance profitability and contribute to long term value creation, others highlight potential underperformance or neutral outcomes.

These findings suggest that sustainable finance initiatives have the potential to achieve profitability but require careful consideration of contextual factors and effective implementation strategies. The complexity and variability of results underscores the need for further research to understand the conditions under which sustainable finance can deliver optimal financial outcomes.

4.6 Equitability performance of sustainable finance

This section evaluates the equitability outcomes of sustainable finance initiatives, examining whether they achieve social objectives alongside financial performance. Similarly to the financial outcomes analysis, this section explored studies reporting positive, negative, and neutral or mixed social impacts, providing a balanced perspective on the social effectiveness of sustainable finance. The analysis includes critical evaluation of each study's methodology and findings, comparisons across studies, and discussions on factors influencing the varied outcomes.

4.6.1 Positive equitability outcomes of sustainable finance

A substantial body of research indicates that sustainable finance can promote equitability by enhancing financial inclusion, reducing poverty, and supporting community development. These studies suggest that tailored financial products and services improve access to capital for underserved populations, empower marginalized groups, and contribute to overall social wellbeing.

Demirguc-Kunt et al. (2018) investigated the role of fintech in expanding financial inclusion globally. Their study found that mobile money services significantly increased access to financial services in Sub-Saharan Africa, particularly among women and low-

income individuals. The use of digital platforms reduced transaction costs and barriers to entry, enabling broader participation in the financial system.

Critical Evaluation: The study provides strong evidence of the positive impact of fintech-driven financial inclusion. Its comprehensive data and global perspective enhance the reliability of the findings. However, the focus on specific regions, such as Sub-Saharan Africa, may limit the generalizability to other regions or contexts, such as South America or South Asia. Challenges such as technological infrastructure deficits, regulatory environments, and varying levels of financial literacy can affect the scalability of these positive outcomes in different nations.

Agier & Szafarz (2013) examined the impact of microfinance on women's empowerment. Analyzing data from microfinance institutions (MFIs) they found that access to microcredit increased income-generating activities among women borrowers and enhanced their decision-making power within households. The study highlights the role of sustainable finance in helping promote gender equality and economic empowerment.

Critical Evaluation: While demonstrating positive equitability outcomes, the study acknowledges that microfinance is not a universal solution to poverty. Success depends on program design, interest rates, and support services. Cultural factors and market conditions also influence the effectiveness of microfinance initiatives. The study's focus on MFIs provides valuable insights but may not capture the full spectrum of sustainable finance instruments affecting equitability.

The positive equitability impacts are associated with targeted financial products designed to meet the needs of marginalized groups, supportive regulatory frameworks that encourage financial inclusion, and capacity-building efforts that enhance financial literacy and entrepreneurial skills. Effective stakeholder engagement and technological advancements, such as mobile banking, also play significant roles in promoting equitability through sustainable finance.

4.6.2 Negative or limited equitability outcomes of sustainable finance

Despite the potential benefits, sustainable finance initiatives may not always achieve their social objectives. Some research indicates that these initiatives can have limited or even

negative impacts due to exclusionary practices, ineffective implementation, and misalignment with community needs.

Bateman & Chang (2012) criticized microfinance as a tool for poverty reduction, arguing that it can lead to over-indebtedness among the poor and does not significantly alleviate poverty. They suggest that microfinance may perpetuate informal, low-productivity activities rather than fostering sustainable economic development. The study argues that microfinance can create a debt-trap for borrowers, undermining the goal of financial inclusion.

Critical Evaluation: The study raises important concerns about the limitations of financial tools such as microfinance in promoting equitability. The authors point out that high interest rates and aggressive lending practices can harm borrowers. However, it may overlook instances where microfinance has been beneficial and does not fully account for variations in institutional models and regulatory environments. The generalization of negative outcomes may not reflect the diversity of microfinance practices globally.

Mader (2018) explored the limitations of financial inclusion efforts, highlighting cases where such initiatives led to exploitation or failed to improve social outcomes. The study emphasizes that without proper regulation and oversight, sustainable finance can inadvertently harm the populations it aims to help. Instances of predatory lending and misaligned incentives are cited as factors that can undermine equitability.

Critical Evaluation: The research underscores the importance of ethical practices and effective governance in sustainable finance. While highlighting valid concerns, the study may not fully consider successful examples of financial inclusion that have positively impacted communities. The emphasis on negative cases provides a cautionary perspective but may lack balance in assessing the overall effectiveness of sustainable finance initiatives.

Comparing the studies, some contributing factors influencing negative outcomes can be a lack of proper oversight leading to predatory lending practices, inadequate stakeholder engagement resulting in solutions that do not address actual needs, and financial products that are inaccessible or unsuitable for the target population. Implementation challenges, such as insufficient training for financial providers and cultural misunderstandings, also play a role in limiting the equitability outcomes of sustainable finance initiatives.

4.6.3 Mixed or neutral equitability outcomes of sustainable finance

Several studies report mixed or neutral equitability outcomes associated with sustainable finance initiative. These findings indicate that the social impact of sustainable finance is complex and context dependent, varying based on implementation strategies, local conditions, and measurement approaches.

Cull et al. (2007) analyzed microfinance institutions globally and found variability in social impact. While some programs improved client welfare and reduced poverty, others showed minimal effects. The study suggests that the success of sustainable finance initiatives' equitability depends on factors such as institutional efficiency, product design, and local economic conditions. The diversity of outcomes reflects the heterogeneity of microfinance practices across different regions.

Critical Evaluation: The findings highlight the need for context-specific strategies and caution against a blanket approach. The study's comprehensive analysis provides valuable insights into the factors influencing success and failure. However, measurement challenges and diverse implementation models contribute to the mixed results observed. The lack of standardized metrics for assessing social impact complicates comparisons across different programs and countries.

Some factors contributing to mixed outcomes include contextual differences, such as economic environments, cultural norms, and regulatory factors, significantly impact equitability outcomes. Diverse implementation models, varying levels of institutional capacity, and difficulties in accurately measuring social impact also play a role. The interaction of these factors results in a diverse range of outcomes, from positive to negligible, highlighting the complexity of achieving equitable outcomes through sustainable finance.

4.6.4 Summary of equitability outcomes

The collective evidence from these studies indicates that sustainable finance has the potential to promote equitability but does not automatically achieve positive social outcomes. Well-designed, inclusive financial products, supportive policies, and active stakeholder engagement characterize successful initiatives. Effective ESG integration in the social domain requires a deep understanding of community needs and the flexibility to adapt to local contexts.

Negative or limited impacts result from implementation failures, lack of oversight, and misalignment with community needs. Challenges such as predatory lending, exclusionary practices, and inadequate regulatory frameworks can undermine the equitability objectives of sustainable finance. The variability in results emphasizes the importance of context, investment strategies, and measurement approaches in determining social effectiveness.

In conclusion, the equitability outcomes of sustainable finance are multifaceted and depend on various factors, including effective implementation, contextual understanding, and alignment with the needs of marginalized populations. While sustainable finance holds promise for advancing social objectives alongside profitability, realizing this potential requires dedicated efforts to address the challenges and leverage the factors contributing to positive outcomes.

5 Discussion

This chapter provides an analysis of the study's findings, evaluating the compiled results with the theoretical framework and existing literature. It discusses how the results address the research questions regarding the viability of sustainable finance in achieving profitability and equitability, and also examines the implications of these findings in theory and in practice.

5.1 Discussion of results

This study aimed to evaluate the viability of sustainable finance in achieving both profitability and equitability. The thematic analysis of various empirical and meta-analytical studies revealed that sustainable finance initiatives yield diverse outcomes influenced by multiple factors.

The findings indicate that integrating Environmental, Social and Governance (ESG) factors can enhance profitability, improve risk management, and contribute to long-term value creation. Studies like Friede et al. (2015) and Whelan et al. (2021) found that a majority of cases show a positive relationship between ESG integration and financial performance. Effective ESG integration leads to improved operational efficiencies,

innovation, and competitive advantages for companies. However, some research suggests that sustainable finance initiatives may underperform compared to traditional investments, particularly in specific markets or due to implementation challenges. For instance, Bakshi (2024) and Renneboog et al. (2008) observed underperformance of sustainable investments in certain contexts, highlighting the complexity of achieving financial success through sustainable finance.

In terms of equitability outcomes, sustainable finance has the potential to promote financial inclusion, reduce poverty, and support community development. Studies by Demircuc-Kunt et al. (2018) and Agier & Szafarz (2013) demonstrated positive social impacts, particularly through tailored financial products and services that improve access to capital for underserved populations. Nevertheless, some initiatives fail to achieve their social objectives due to exclusionary practices and ineffective implementation, as noted by Bateman & Chang (2012) and Mader (2018). The social impact of sustainable finance is often highly context-dependent, varying based on implementation strategies and local conditions, as observed by Cull et al. (2007).

The relationship between profitability and equitability in sustainability in finance is complex. While sustainable finance has the potential to achieve both objectives, success depends on several factors. Alignment of financial and social goals is crucial, as initiatives that effectively integrate ESG factors tend to perform better financially and socially. Companies focusing on material ESG issues relevant to their industry can create shared value, as proposed by Porter & Kramer (2011) and supported by (Khan et al., 2015). However, there can be trade-offs where pursuing equitability may involve short term costs that impact profitability. Long-term benefits such as improved reputation, customer loyalty, and employee satisfaction can help offset these costs, potentially leading to sustainable success (Eccles et al., 2014).

The degree of ESG integration is crucial in realizing positive outcomes. Focusing on material sustainability issues specific to the particular industry significantly enhances financial performance (Khan et al., 2015). Effective ESG integration requires robust frameworks and consistent measurement, but the lack of standardized metrics can hinder comparisons and challenge investment decisions (Friede et al., 2015). Identifying material ESG issues can be challenging due to varying industry characteristics and

evolving stakeholder expectations. Companies may struggle with data availability and reporting standards, which can impede effective ESG integration.

Market dynamics and investor preferences play a pivotal role in the performance of sustainable financial initiatives. Growing investor interest in sustainability drives capital towards companies with strong ESG performance, enhancing access to financing and potentially increasing stock valuation (Clark et al., 2014). However, regional variations exist, and the positive relationship between ESG integration and financial performance is stronger in North America and emerging markets, compared to within Europe (Friede et al., 2015). Differences in regulatory frameworks, market maturity, and cultural attitudes toward sustainability contribute to these variations. In markets where sustainable finance is less mature, such as India and Indonesia, sustainable investments may underperform due to market inefficiencies and lack of investor awareness or interest (Bakshi, 2024; Fata & Arifin, 2024).

Implementation challenges can impede the successful adoption of sustainable finance initiatives. Transitional costs associated with implementing ESG practices may involve substantial expenses, temporarily reducing profitability (Norocel & Vierescu, 2024). Insufficient government support or unclear policies can hinder the effectiveness of sustainable finance efforts (Fata & Arifin, 2024). Variations in defining and measuring ESG factors and financial performance contribute to inconsistent findings, making it difficult for investors to assess and compare sustainable investments (Revelli & Viviani, 2015). Exclusionary practices, such as negative screening and exclusion of certain industries, can limit diversification and potentially reduce returns (Adler & Kritzman, 2008; Renneboog et al., 2008). These challenges highlight the need for standardized ESG metrics and supportive regulatory environments to facilitate effective sustainable finance practices.

This study's findings align with and expand upon existing literature. The positive correlation between ESG integration and financial performance supports earlier meta-analyses (Friede et al., 2015; Whelan et al., 2021). However, negative financial outcomes observed in certain markets emphasize the context-dependent nature of sustainable finance, underscoring the importance of considering regional factors (Bakshi, 2024). The variability in equity outcomes mirrors findings from studies on financial inclusion

and microfinance, suggesting that sustainable finance's social impact is influenced by implementation strategies and local conditions (Bateman & Chang, 2012; Cull et al., 2007).

These results have significant implications for theoretical frameworks. The positive impact of ESG integration on financial performance reinforces stakeholder theory, which states that considering stakeholder interests leads to better business outcomes (Clarkson, 1995; Freeman, 1984). The findings support the triple bottom line concept, emphasizing that companies can achieve economic, social, and environmental objectives at the same time (Elkington, 1997). Challenges associated with exclusionary screening in socially responsible investing highlight limitations in traditional portfolio optimization, suggesting a need for revised investment models that integrate ESG factors without compromising diversification (Adler & Kritzman, 2008).

In conclusion, the study indicates that sustainable finance can achieve profitability and equitability objectives, but success is contingent upon effective ESG integration, market context, investor behaviour, and overcoming implementation challenges. Companies should focus on material ESG issues and develop robust implementation strategies to enhance financial performance and social impact. Investors need to understand the context-dependent nature of sustainable investments, considering regional factors and market maturity when making investment decisions. Policymakers play a critical role in fostering sustainable finance by providing supportive regulatory frameworks and policies that encourage ESG integration and address implementation barriers.

5.2 Discussion of method

This study employed a literature based thematic analysis to evaluate the viability of sustainable finance in achieving profitability and equitability objectives. This methodological approach involved a comprehensive review and critical evaluation of existing empirical studies, meta-analyses, and theoretical frameworks related to sustainable finance, ESG integration, financial outcomes, and social outcomes.

The chosen method proved effective in addressing the research questions. By analysing a wide range of studies, the research was able to capture a diverse range of perspectives

and outcomes across different contexts, industries, and regions. This approach facilitated a holistic understanding of the complexities and nuances inherent in sustainable finance, allowing for a balanced assessment of its potential and limitations.

In practice, the method worked as planned, but several challenges arose during the research process. One was the heterogeneity of the studies reviewed, as the variations in definitions of ESG factors, measurement of financial and social performance, and methodological approaches made it challenging to compare findings directly. This required careful consideration and synthesis to ensure that conclusions drawn were coherent and accurately reflected the evidence.

Another challenge was the potential for publication bias. Studies reporting significant positive results are more likely to be published, which could skew the overall perception of sustainable finance outcomes (Kepes et al., 2014). To mitigate this, efforts were made to include studies with negative and mixed or neutral findings, providing a more balanced view. However, the reliance on published literature inherently carries this risk, and the extent of unpublished negative results remains uncertain.

The absence of primary data collection meant that there were no respondents to engage with directly. Consequently, the study did not face issues related to respondent cooperation or the quality of primary data responses. Instead, the reliability of the findings depended on the quality and credibility of the sourced reviewed. Priority was given to peer reviewed articles, reputable journals, and recognized experts in the field to enhance the study's reliability.

The method chosen was appropriate for the research objectives. A thematic literature review analysis allowed for an extensive exploration of existing knowledge and facilitated the identification of patterns, themes, and gaps in the current understanding of sustainable finance. Alternative methods, such as empirical data analysis or case studies, could have provided in depth insights into specific contexts or quantitative measurements of outcomes. However, these approaches might have limited the scope of the research and its ability to generalize findings across different settings.

The study took several steps to enhance reliability and validity. By including a diverse range of studies and critically evaluating their methodologies and findings, the research aimed to present conclusions that are consistent and dependable. Validity was supported by grounding the analysis in established theoretical frameworks and by cross referencing findings with multiple sources. Despite this, factors such as variability in study methodologies, the evolving nature of ESG definitions, and regional differences could influence the reliability and validity of this work's findings.

One significant factor that may have influenced the study's outcomes is the rapid evolution of sustainable finance practices and regulations. As the field is continuously developing, some of the studies reviewed may not reflect the most current practices or market conditions. This limitation could affect the applicability of the findings to the present or future context. Additionally, the focus on English language literature may have excluded relevant studies published in other languages, potentially introducing a language bias, and limiting the global representativeness of the research.

In conclusion, the comprehensive literature review thematic analysis was an effective method for this study, enabling a comprehensive and nuanced exploration of sustainable finance's viability in achieving profitability and equitability. While challenges related to heterogeneity of sources, publication bias, and evolving practices were present, the methodological approach allowed for these factors to be addressed through critical evaluation and careful synthesis. Alternative methods might have offered different insights but may not have provided the breadth necessary for this research. Overall, the method contributed to the study's reliability and validity, though acknowledging the limitations is essential for contextualizing the findings.

6 Conclusions

This study aimed to evaluate the viability of sustainable finance in achieving both profitability and equitability objectives. The primary research questions guiding this inquiry were whether sustainable finance initiatives can achieve their profitability objectives and whether they can effectively promote equitability alongside financial performance. By conducting a comprehensive thematic literature analysis of empirical studies, meta-analyses, and theoretical frameworks, the research sought to provide a

balanced perspective on the financial and social outcomes of sustainable finance initiatives.

6.1 Conclusions on profitability objectives

The analysis revealed that sustainable finance initiatives have the potential to achieve their profitability objectives. A significant number of studies demonstrated a positive relationship between the integration of Environmental, Social, and Governance (ESG) factors and financial performance. For example, Friede et al. (2015) aggregated evidence from over two thousand empirical studies and found that approximately 90% reported a non-negative relationship between ESG and corporate financial performance, with a majority indicated a positive correlation. Effective ESG integration emerged as a critical factor in enhancing profitability. Companies that strategically incorporate ESG considerations into their operations tend to realize improved operational efficiencies, innovation, and competitive advantages. Khan et al. (2015) emphasized the importance of focusing on material sustainability issues specific to an industry, noting that firms excelling in these areas significantly outperform those with poor performance.

However, the profitability outcomes of sustainable finance are not universally positive. Some studies, such as Bakshi (2024) and Renneboog et al. (2008), reported underperformance of sustainable investments in certain markets and contexts. These negative outcomes are often attributed to market inefficiencies, higher costs associated with ESG implementation, lack of investor awareness or interest, and challenges related to measurement and standardization of ESG metrics. These findings suggest that while sustainable finance can be profitable, success depends on focusing on material ESG issues, robust implementation strategies, and operating within supportive market contexts. Challenges such as transitional costs, regulatory barriers, and exclusionary practices can impede profitability.

In conclusion, sustainable finance initiatives can achieve profitability objectives when effectively integrating ESG factors into business practices. The overall evidence supports the viability of sustainable finance as a profitable strategy, although success is contingent upon addressing implementation challenges and contextual factors.

6.2 Conclusions on equitability objectives

The study also examined whether sustainable finance initiatives effectively promote equitability alongside financial performance. The findings indicate that sustainable finance can enhance equitability by promoting financial inclusion, reducing poverty, and supporting community development. Demircuc-Kunt et al. (2018) found that mobile money services significantly increased access to financial services among underserved populations, particularly in Sub-Saharan Africa. Tailored financial products and services that address the needs of marginalized groups contribute to positive equitability outcomes. Agier & Szafarz (2013) demonstrated how access to microcredit increased income-generating activities among women borrowers, enhancing their economic empowerment.

Conversely, some sustainable finance initiatives failed to achieve social objectives due to exclusionary practices, ineffective implementation, and misalignment with community needs. Bateman & Chang (2012) criticized microfinance as a tool for poverty reduction, arguing that it can lead to over indebtedness and perpetuate low-productivity activities. Mader (2018) highlighted cases where financial inclusion efforts inadvertently harmed the populations they aimed to help due to a lack of proper regulation and oversight. These findings underscore the importance of well-designed, inclusive financial products, supportive policies, and active stakeholder engagement in promoting equitability.

In conclusion, sustainable finance initiatives have the potential to promote equitability when they are thoughtfully designed and effectively implemented. Successful initiatives require a deep understanding of community needs, flexibility to adapt to local contexts, and mechanisms to prevent unintended negative consequences. Without careful consideration of these factors, sustainable finance may fall short of achieving its social objectives.

6.3 Integrated conclusions

The study's findings highlight the complexity of achieving both profitability and equitability through sustainable finance. While there are examples of initiatives that successfully balance financial and social goals, outcomes are highly context-dependent and influenced by multiple factors, including market maturity, regulatory environments,

investor behaviour, and implementation strategies. Effective ESG integration serves as a bridge between profitability and equitability objectives. Companies that focus on material ESG issues not only enhance their financial performance but also contribute positively to society. The creation of shared value, as discussed by Porter & Kramer (2011), illustrates how businesses can drive economic success while addressing social and environmental challenges.

However, trade-offs may arise, and pursuing equitability can involve short-term costs impacting profitability. Long-term benefits such as enhanced reputation, customer loyalty, and employee satisfaction can help offset these costs. The success of sustainable finance initiatives ultimately depends on the ability to navigate these trade-offs and leverage synergies between financial and social outcomes. Therefore, sustainable finance is a viable strategy for achieving both profitability and equitability objectives when initiatives are thoroughly designed and effectively implemented. Realizing this potential requires a nuanced understanding of the factors that influence success and concerted efforts to address challenges.

6.4 Suggestions for further studies

While this study provides valuable insights into the viability of sustainable finance, several areas warrant further research. Future studies could focus on developing standardized ESG metrics to facilitate consistent measurement and comparison of sustainable finance initiatives. Longitudinal research examining the long-term financial and social impacts of sustainable finance would enhance the understanding of its sustainability over time. Additionally, exploring the effectiveness of sustainable finance in different regional and cultural contexts would provide a more global perspective. Investigating strategies to overcome implementation challenges, such as transitional costs and regulatory barriers, could inform policymakers and practitioners aiming to enhance the effectiveness of sustainable finance initiatives.

6.5 Limitations

It is important to acknowledge the limitations of this study. The reliance on existing literature means that the findings are subject to the quality and scope of available studies.

Variations in definitions, measurement approaches, and methodological designs across studies may affect the consistency of conclusions. The rapidly evolving nature of sustainable finance practices and regulations may render some findings less applicable over time. Additionally, the focus on English-language literature may have excluded relevant studies published in other languages, potentially introducing a language bias.

6.6 Concluding remarks

This study contributes to the understanding of sustainable finance's viability in achieving profitability and equitability. The evidence suggests that while challenges exist, sustainable finance holds promise as a strategy that aligns economic success with social responsibility. Realizing this potential requires concerted efforts from businesses, investors, policymakers, and researchers to address barriers and leverage opportunities for creating shared value. Effective ESG integration, supportive regulatory environments, and active stakeholder engagement are key to harnessing the benefits of sustainable finance. By addressing the identified challenges and building on the factors that contribute to positive outcomes, sustainable finance can play a significant role in promoting both financial prosperity and social well-being.

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