

SUSTAINABLE FINANCE AND INVESTMENT DECISION MAKING

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial
fulfillment of the requirements for the Master's Degree

By

Gajendra Bahadur Thapa

Exam Roll No.: 35523/21

Campus Roll No.: 431/077

T.U. Reg. No.: 7-2-278-1289-2016

Shanker Dev Campus

Group: Finance

Kathmandu, Nepal

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**Sustainable Finance and Investment Decision Making**”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

.....

Gajendra Bahadur Thapa

Date:

REPORT OF RESEARCH COMMITTEE

Mr. Gajendra Bahadur Thapa has defended research proposal entitled “**Sustainable Finance and Investment Decision Making**” successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Deepak Raj Kandel and submit the thesis for evaluation and viva voce examination.

.....
Deepak Raj Kandel
Dissertation Supervisor

Dissertation Proposal Defended Date:
.....

Dissertation Submitted Date:
.....

.....
Asso. Prof. Dr. Sajeeb Kumar Shrestha
Chairperson, Research Committee

Dissertation Viva Voce Date:
.....

APPROVAL SHEET

We, the undersigned, have examined the dissertation entitled “**Sustainable Finance and Investment Decision Making**” presented by Gajendra Bahadur Thapa for the degree of Master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the dissertation is worthy of acceptance.

.....
Deepak Raj Kandel
Dissertation Supervisor

.....
Internal Examiner

.....
Internal Expert

.....
External Expert

.....
Asso. Prof. Dr. Sajeeb Kumar Shrestha
Chairperson, Research Committee

.....
Asso. Prof. Dr. Krishna Prasad Acharya
Campus Chief

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ABBREVIATIONS

AI	:	Artificial Intelligence
BS	:	Vikram Sambat
CAPM	:	Capital Asset Pricing Model
CEO	:	Chief Executive Officer
CG	:	Corporate governance
ESG	:	Environment, Social and Governance
FMFG	:	Financial Maximally Filtered Graph
GDP	:	Gross Domestic Product
i.e.	:	that is
ICMA	:	International Capital Market Association
IDM	:	Investment Decision Making
JSFI	:	Journal of Sustainable Finance and Investment
LE	:	Legal Environment
NPR	:	Nepalese Rupees
NRB	:	Nepal Rastra Bank
R&D	:	Research and Development
RQN	:	Research question number
SDGs	:	Sustainable Development Goals
SE	:	Social Environment
SEBON	:	Security Board of Nepal
SLG	:	Social, Legal and Corporate Governance
SPSS	:	Statistical Package for Social Sciences
SRI	:	Socially responsible investment
UNEP	:	United Nations Environmental Program

ABSTRACT

This study analyzes sustainable finance and investment decision making in Nepal. Both primary and secondary data was gathered from 250 employees of Nabil and Nepal Bank using simple random sampling. This study has taken descriptive and causal relationship research design to analyze the correlation and impact of sustainable finance in investment decision making; and has employed SPSS with descriptive analysis, correlation analysis and multiple regression analysis. It shows that sustainable finance is growing in Nepal in recent years. The correlation analysis examined that the social environment, legal environment and corporate governance have significant and positive relationship with investment decision making. The multiple regression analysis reveals a positive and significant effect of the social environment, legal environment and corporate governance with investment decision making,

Key Words: *Sustainable Finance, Social Environment, Legal Environment, Corporate Governance, Investment Decision Making*

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Sustainable finance has emerged as a crucial catalyst for transformation in response to pressing global challenges such as climate change, global warming, pandemics, social inequality, and corporate governance. By shifting focus from traditional profit-centered approaches, financial strategies are now integrating environmental, social, and governance (ESG) considerations. This comprehensive approach seeks to harmonize economic growth with environmental sustainability and societal well-being through innovative investment methods and expanded corporate accountability. Investors, institutions, and companies are becoming more and more aware of how the decisions that they make today could affect future generations' quality of living (Chui et al., 2020).

In recent years, sustainable finance has drawn more attention. The previous ten years have seen a significant quantity of literature published, which provides a solid research base on the subject of sustainable finance. The current state of understanding in sustainable finance will be thoroughly examined in this literature review, along with information on how financial institutions are impacted by sustainable finance, a summary of its historical development, and a list of its major proponents. analyzing and summarizing the most current study and corporate material on green finance that financial institutions are implementing, including papers, case studies, books, and policy documents (Duygun et al., 2023).

Diverse definitions were found in the collection of carefully chosen papers on financial sustainability that underwent assessment. However, a number of studies continue to lack a thorough explanation of the notion of sustainable finance. "Integrating ecological factors into financial selection methods to promote long-term financial security, reduce climate risks, and expedite the switch to a low-carbon" economy was the first precise definition of sustainable finance that was used in several studies. (Y. Huang et al., 2023; Jung & Song, 2023).

Sustainable finance endeavors to incorporate social, environmental, and climate-related factors into the operational strategies of financial institutions provides a definition of sustainable finance as financial practices that encompass climate, green, and social finance, while also encompassing broader aspects related to the enduring economic viability of organizations and the stability of the overarching financial system within which they function (Edmans & Kacperczyk, 2022).

Ryszawska (2016) defines sustainable banking as financial procedures that support the economy, the environment, and social growth in all three interrelated domains. In a similar vein, Migliorelli (2021) defines sustainable finance as capital supporting industries or endeavors that advance at least one facet of sustainability. Sustainable finance refers to financial systems that consider environmental, social, and governance (ESG) considerations (Gerster, 2011).

Financial institutions, organizations, and investors have shown increasing interest in sustainable investing in recent times. Busch et al. (2021) state that banks can gain from sustainable investment since investors are more interested in banks that are making efforts to lessen their negative social and environmental effects. Financial institutions that prioritize environmental and social responsibility may benefit from higher stock prices and more investment from those who value sustainable operations. According to Ditlev-Simonsen (2021) This Phenomena may result in increased revenue and a noticeably stronger edge over competitors. Studies have indicated a favorable association between profitable investment and Pakistan's financial success. Financial firms with profitable activities typically have higher stock returns and are more valuable. It suggests that investors looking to maximize their profits can benefit from long-term investment opportunities (Edmans and Kacperczyk, 2022).

Financial access to sustainable banks may improve as global standards shift in favor of sustainability. Lenders and investors are searching for businesses that share their commitment to sustainability. Companies are under increasing pressure to demonstrate accountability for society and the environment, particularly from younger generations. By concentrating on long-term investments, banks can draw in and keep these customers, which boosts their bottom line. Long-term financial goals are frequently aligned with sustainable investment goals. Banks may address future survival and economic

challenges, such as climate change and ineffective leadership, by focusing on ESG considerations (Shafique et al., 2019).

Environmental aspects are an essential part of ESG criteria, which makes it possible to identify investments that have both beneficial impact on the environment and financial feasibility. Potential possibilities for investment, as stated by Gärling and Jansson (2021), can include things like promoting sustainable development, reducing waste and pollution, or advancing renewable energy. Because environmental issues have the ability to significantly impact both the long-term financial performance of a firm and the health of the global economy, they should be taken into account when making investment decisions. Lingnau et al. (2022) classify these elements into two primary categories: legislative and somatic.

Khalid et al., (2022) have discovered a number of ambient physical elements that affect several facets of human life. Insufficient resource availability, natural disasters, and climate change are some of these factors. Physical variables can have a direct impact on a company's financial success. These elements might cause supply chain interruptions, lower revenue, and higher costs. If there is a water shortage in a certain area, a business that uses a lot of water for production could be financially vulnerable (Moya-Clemente et al., 2020).

The idea behind sustainable investing involves making investment choices that factor in environmental, social, and governance (ESG) considerations. Pedersen et al. (2020) observed that investors were increasingly focusing on the potential returns of investments along with their societal, environmental, and economic impacts. This investment strategy gained popularity and was anticipated to expand significantly in the foreseeable future. Sustainable investments can be achieved through a variety of approaches. A viable funding approach for people who want to balance their financial objectives with their ecological beliefs is to make direct investments in shares or through e-traded funds, mutual funds, and hedge funds that place a high priority on longevity (Kölbel et al., 2020).

Investing sustainably reduces risks and addresses significant challenges such as climate change, global inequality, and other key social and environmental issues, all while providing competitive returns (Popescu et al. 2021).

One of the key social factors in sustainable investing is the protection of human rights. When making investment decisions, it is crucial to ensure that banks and projects respect fundamental human rights and do not contribute to human rights abuses (Ahmed & Thun, 2018). This means ensuring that investments do not support oppressive regimes or exploitative practices such as forced labor, child labor, and other labor abuses (Gomes, 2020). In addition to human rights, adherence to labor standards is another important social factor in sustainable investment. It is essential that banks and projects comply with basic labor standards, ensuring fair treatment and safe working conditions for workers (Townsend, 2020). This includes guaranteeing that workers receive a living wage and have access to benefits like healthcare and paid leave. Social factors are critical in sustainable investment because they address the social impacts of investments on local communities, workers, and society as a whole. Investors consider these factors to ensure that their investments contribute positively to local communities and create opportunities for growth and prosperity (Gomes, 2020; Townsend, 2020).

Governance factors involve the organizational structure and practices of an investment's management, emphasizing the importance of transparency and accountability. Investors evaluate these factors to ensure that investments are managed in a transparent and accountable manner (Gomes, 2020; Townsend, 2020).

In essence, sustainable investing integrates governance, social, and environmental considerations into investment decisions. By doing so, investors can align their financial returns with positive social and environmental outcomes. This approach has gained popularity as investors aim to mitigate risk, achieve competitive returns, and foster positive long-term global impacts (Aich et al., 2021).

1.2 Problem statement

Sustainable finance and investment decision-making presents a critical imperative in today's financial landscape, urging the integration of environmental, social and governance (ESG) considerations into the core of investment strategies. At its heart lies

the challenge of balancing financial returns with long-term sustainability objectives. This entails not only assessing risks and opportunities through an ESG lens but also embracing metrics and reporting frameworks to transparently communicate the sustainability performance of investments. Mitigating environmental and social risks, engaging stakeholders and navigating evolving regulatory landscapes are central to this endeavor. Impact investing, which aligns financial goals with specific sustainability outcomes, further underscores the need for innovative approaches to balance profit with purpose.

In recent years, addressing environmental and social challenges has become increasingly urgent. A key driver of this shift is the growing awareness of the threats posed by climate change to our planet. This awareness has also influenced the financial sector, with many investors now seeking opportunities to support companies committed to reducing their carbon footprint and combating climate change. This change in how investors make decisions has prompted businesses to focus more on sustainable finance. Integrating factors related to the environment, society, and governance, or ESG, into financial choices is known to be sustainable finance (Edmans & Kacperczyk, 2022).

The growing interest in sustainable finance has paralleled the heightened concerns about sustainability, showcasing its ability to yield positive environmental and social outcomes alongside financial gains. As a relatively new and fashionable topic, sustainable finance brings with it several unknowns and challenges, particularly in terms of policy implementation and regulatory compliance by financial institutions. Integrating social and environmental issues into economic models is a key aspect of sustainable finance, though it may appear straightforward (Schoenmaker & Schramade, 2019).

The study's findings offer potential investors crucial insights into the link between environmentally responsible practices and economic outcomes, aiding in making informed investment choices. The bank priority to foster sustainable investments could enhance investor confidence. By promoting sustainable investment, the study indirectly enhances societal well-being. Pakistan faces several challenges, including poverty and inequality, environmental degradation, and global warming. Tackling these issues necessitates investing in initiatives that foster positive social and environmental outcomes (Asghar et al., 2020).

Investing in renewable energy projects helps decrease dependence on non-renewable energy sources and reduces greenhouse gas emissions. Supporting social enterprises can stimulate economic growth and generate employment opportunities. Additionally, directing resources towards education, healthcare, and infrastructure improvements can elevate the standard of living in a community (Xu et al., (2022).

In this evolving landscape, sustainable finance requires a multifaceted approach that extends beyond mere compliance. It necessitates a fundamental shift in mindset and practice, where investment decisions are informed by a holistic understanding of their environmental, social and governance implications. By embedding sustainability considerations into financial strategies, investors can not only manage risks more effectively but also contribute positively to society and the planet. Education and awareness play a crucial role in driving this transformation, empowering investors and financial professionals to navigate the complexities of sustainable finance with confidence. Ultimately, by aligning financial incentives with broader sustainability goals, the finance industry can become a powerful force for positive change, driving towards a more resilient and equitable future (Gomes, 2020).

The important questions that are related to the objectives of the study are as follows:

- i. What is the current status of sustainable finance and investment decision making practices?
- ii. Is there any relationship between social environment, legal environment and corporate governance?
- iii. Does sustainable finance have impact on investment decision-making?

1.3 Objectives of the study

Building on the aforementioned context, this study seeks to investigate sustainable finance and investment decision-making practices in Nepal. The following are some of the paper's particular objectives:

- i. To assess the current status of sustainable finance and investment decision-making practices in Nepal.
- ii. To examine the relationship between social environment, legal environment and corporate governance in investment decision-making.
- iii. To analyze the impact of sustainable finance with investment decision-making.

1.4 Hypothesis

The research hypothesis to test the relationship explained in the theoretical model are as follows:

- H₁: There is significant relationship between social environment factors with investment decision making.
- H₂: There is significant relationship between legal environments with investment decision.
- H₃: There is significant relationship between corporate governance with Investment Decision making.

1.5 Rationale of the study

The study of sustainable finance and investment decision-making in Nepal, incorporating Environmental, Social and Governance (ESG) factors, will hold profound significance given the country's unique environmental vulnerabilities, social challenges and cultural heritage. Nepal will face heightened risks from climate change, including glacial melt, natural disasters and water scarcity, making it imperative to integrate ESG considerations into financial decision-making to promote climate resilience and adaptation. Moreover, Nepal's rich biodiversity, reliance on natural resources for livelihoods and cultural heritage will necessitate sustainable finance approaches that prioritize environmental conservation and community well-being. By incorporating ESG factors into investment decisions, stakeholders will be able to mitigate environmental risks, promote social inclusion and uphold governance standards, thereby fostering long-term value creation, economic stability and environmental sustainability. Furthermore, the study of sustainable finance and investment decision-making in Nepal with an ESG lens will align with international sustainability frameworks, such as the Sustainable Development Goals (SDGs) and the Paris Agreement, enabling Nepal to leverage global partnerships, access climate finance, and contribute to global efforts towards sustainable development. Through interdisciplinary research, stakeholder engagement and practical applications, the study of sustainable finance with ESG considerations in Nepal can catalyze green growth, social equity and resilience, thereby advancing the country's development agenda while preserving its natural and cultural heritage for future generations.

1.6 Limitations of the study

The study's limitations are outlined below:

- i. The sample size for the study is limited so further study can be done by taking large sample size.
- ii. This study used descriptive survey research design and limited on regression, correlation and hypothesis. Other research design and model are ignored in this study.
- iii. This study used social environment, legal environment and corporate governance based on sustainable finance with other major variables could also be considered for the future research.
- iv. This study is based on the population of the specified sample banking human resources.
- v. This study only focuses on the SLG factors with the investment decision making.

CHAPTER – II

LITERATURE REVIEW

A literature review on sustainable finance and investment decision making examines the process of incorporating environmental, social, and governance (ESG) standards through accounting processes. This field has evolved from Socially Responsible Investing (SRI) to broader strategies, with frameworks like the UN Principles for Responsible Investment (PRI) guiding implementation. Research shows that ESG factors can enhance financial performance and risk management, with a growing preference among investors for sustainable options. Regulatory frameworks, such as the EU Sustainable Finance Taxonomy, support this trend despite challenges like data standardization and green washing. Innovations like green bonds and sustainability-linked loans are advancing sustainable finance, highlighting the need for further research on long-term impacts and regulatory effects. Integrating sustainability into finance is crucial for addressing global challenges and promoting a sustainable economic system. This chapter has been classified into conceptual review, theoretical and empirical review.

2.1 Conceptual Review

The concept of sustainable finance has emerged as a crucial catalyst for change as global economies face pressing issues like climate change, global warming, pandemics, social inequality and corporate governance. Financial strategies are shifting away from traditional notions of profitability toward a comprehensive approach that integrates environmental, social and governance (ESG) factors (Chui et al., 2020).

Social Environmental Factors

Social factors focus on the impact of investments on nearby communities, workers, and society at large (Gomes, 2020; Townsend, 2020). Investors take these factors into account to ensure their investments benefit local communities and foster growth and prosperity. The importance of social factors in sustainable investment has gained significant recognition in recent years (Ahmed & Scott, 2020). These factors encompass the societal effects of investments, including human rights, labor standards and environmental considerations. Social factors are crucial for sustainable investment as they help ensure that investments generate positive outcomes and do not harm society (Kendall, 2020).

Social factors in ESG relate to how a company affects society and its various stakeholders. These factors include workplace safety, human rights, labor standards, diversity, health, and access to medicine, among others. Research in developed countries has demonstrated that social factors are a major focus in ESG considerations for investors. Research in Australia shows that social factors are prioritized over environmental and governance issues, highlighting the significance of community-employee relations, worker and product safety, and human rights (Huang, 2019).

Social factors pertain to the ecological consequences of investment. Investors evaluate multiple factors when making investment decisions to minimize their environmental impact. These considerations include the use of natural resources, the project's potential effects on climate change, the integration of sustainable energy sources and the possible consequences for biodiversity, as specified by Lingnau et al., (2022).

ESG criteria include environmental factors as a key component, allowing for the identification of investments that are both financially viable and environmentally beneficial. Gärling and Jansson (2021) suggested that potential investment options could include those that support renewable energy development, mitigate pollution and waste, or advancing sustainable development, is essential. Integrating environmental factors into investment choices is vital because these factors can significantly impact a company's long-term financial performance and the health of the global economy. These components can be categorized into two types: tangible and regulatory, as detailed by Lingnau et al. (2022).

Khalid et al. (2022) recognized number of tangible environmental factors, such as resource depletion, natural disasters, climate change, and water shortages, have an impact on diverse aspects of human life. The financial condition of a business may be directly impacted by these issues, which may result in higher costs, lower revenue, and even supply system disruptions (Moya-Clemente et al., 2020).

ESG criteria prioritize environmental factors, enabling the selection of investments that are not only financially sound but also have a positive environmental impact. Such investments can advance renewable energy, reduce pollution, manage waste, and support sustainable development (Gärling & Jansson, 2021). Evaluating environmental aspects is

crucial for assessing both a company's long-term financial success and the broader health of the global economy (Lingnau et al., 2022).

To gauge the environmental impact of prospective investments, investors may employ tools such as environmental ratings and sustainability indices. These instruments help identify investments that are either environmentally advantageous or potentially vulnerable to environmental risks. Additionally, ESG considerations guide investors in uncovering promising opportunities, including long-term economic prospects and clean energy initiatives with reduced carbon emissions (Lingnau et al., 2022).

Legal Environmental Factors

The legal environment is a crucial factor for companies considering investments, as it affects long-term returns (Ades, 2019). For example, Bardhan (2017) found that the success of companies, both local and international, hinges on their adherence to established laws. The companies that do not abide by the regulations to not take long before liquidating up since the government will be on their toes and to a greater extent, their operation license will be revoked and become illegal to continue operating (Brahm, 2015). Government regulations that control company operations within a particular jurisdiction are included in the legal environment (Cyert, 2014). Key legal considerations for businesses, whether operating locally or internationally, include competition regulation, tax policy and government policy (Dawson, 2013). Likewise, there are three components to the legal environment: the residence, the host, and worldwide contexts (Gratchev, 2011).

The home environment specifies international companies should fully adhere to the internal laws and regulations, no matter the influence of the company. The governing branches of government's administrative obligations are one aspect of the residential environment that impacts the business (Gómez and Spencer, 2012).

Decision-making is a complex process that plays a crucial role in the field of behavioral finance. Investor behavior is based on various psychological, social and behavioral biases other than market volatility and opportunities for profit maximization (Kim and Nofsinger, 2008).

Human rights are a key social factor in sustainable investing. It is vital to ensure that banks and projects uphold fundamental human rights and avoid contributing to any abuses when making investment choices (Ahmed & Thun, 2018).

The earlier comment underscores the essential duty of making sure that investments do not endorse oppressive regimes or perpetuate exploitative practices, including child labor, forced labor, and other labor abuses (Gomes, 2020).

In addition to human rights, labor standards play a crucial role in sustainable investment. Banks and projects must adhere to basic labor standards, which include ensuring fair treatment for workers and maintaining safe working environments. This includes making sure workers receive adequate wages, healthcare benefits, and paid leave, contributing to their overall well-being and security in the workplace (Townsend, 2020).

This entails ensuring that workers earn a living wage and have access to essential benefits such as healthcare and paid leave. Social factors are crucial in sustainable investing because they evaluate how investments affect local communities, workers, and society as a whole (Gomes, 2020; Townsend, 2020).

Human rights are a fundamental social component of sustainable investment strategies. Ensuring that investments uphold essential human rights is crucial, as it prevents supporting or perpetuating any violations. This means that investors must carefully assess whether their investments align with principles that respect and protect human rights, avoiding any involvement with entities or projects that might be implicated in abuses. By maintaining a strong commitment to human rights, investors can contribute to ethical practices and support a more just and equitable global environment (Ahmed & Thun, 2018).

The behaviors, acts, or customs of a group of people who have an attitude toward one another are referred to as social relationships. It is any behavior that tries to affect or take account of each other's subjective experiences or intentions. Shive (2010) examined using information on each individual investor's orders in the twenty highly traded Finnish equities within 1995 and 2003, the decision-making procedure of investors. The study

found that there is a significant positive influence of social effects on individual investor trading.

Lu and Tang (2015) found that peer behavior and outcomes significantly influence investment decisions. Specifically, individuals with lower equity exposure than their coworkers are likely to increase their investment in risky assets when they observe that their coworkers have achieved higher returns.

In addition, Kaustia and Knupfer (2012) found that high equity returns achieved by neighbors also have a positive effect on stock market participation. Moreover, Shanmughama and Ramyab (2012) stated that social interactions and media have positive relationship with attitude towards trading. The study also revealed that there is a strong positive correlation between attitude, perceived behavioral control and intention towards trading.

Corporate Governance Factors

Corporate governance encompasses a system of rules, processes, and practices employed to direct and control a firm's activities. Its primary responsibility is to balance the interests of the company's stakeholders. Effective corporate governance is crucial for maintaining the company's standards. The pillars of corporate governance transparency, accountability and security ensure the successful operation of the company and foster strong professional relationships among its stakeholders (Roman 2014).

The part corporate governance plays in the interaction between corporate choices regarding investments for companies listed in India and Pakistan and investor trust. They find that firms with good corporate governance practices (measured by board size, board independence and the existence of audit and nomination committees) are accompanied by a higher level of investment (calculated as total investment expenditure minus amortization and depreciation expenses). Furthermore, the connection between trust in investors and company investment decisions is moderated by business ethics. In particular, robust corporate governance practices reduce the impact of investor confidence on corporate investment choices (Shahid and Abbas, 2019).

Yang and Xiong (2010) examined the effect of board composition and structure of ownership as proxies for corporate governance on high-tech companies' R&D spending. Interestingly, they find that ownership structure is significantly associated with R&D investment while board characteristics (including board size, the proportion of independent directors and CEO Duality) are insignificantly associated with R&D investment.

Gill et al. (2012) investigated how corporate governance and investment decision of small business firms in India are related. The portion of a small business firm's portfolio that is allocated to the real estate market in order to diversify risk and gain a greater return is used to quantify investment decisions. It is found that board characteristics, such as dual chief executives, board size, and chief executive officer longevity, have a favorable relationship with investment decisions.

Jensen and Fama (1983) focused on conflicting interest between top level managers and shareholders. He conducted a study in U.K and U.S and established the positive affect of corporate governance on the alignment of interest of top-level management with shareholder's interest. He noted that conflicts of interest arise from issues related to compensation, the selection and appointment of senior management, organizational structure, and performance.

Panchali and Baid (2002) noted that for a business to achieve long-term success and sustainability, it is crucial to optimize the interests of both shareholders and stakeholders. It noticed that investors are the true owners of the business, and the executive team serves as a conduit for their investments.

Governance factors involve examining the management structure of an investment, including its leadership, transparency, and accountability. Investors assess these elements to ensure their investments are managed with clarity and integrity, supporting projects that adhere to strong governance practices and ethical standards (Gomes, 2020; Townsend, 2020).

The governance component of sustainable investment is crucial because it plays a key role in enforcing accountability for an organization's actions and ensuring that

investments are managed in an ethical and responsible manner. Effective governance mechanisms help to establish clear standards and practices that guide organizational behavior, promote transparency, and uphold ethical principles. By implementing robust governance structures, investors can be confident that their investments are not only yielding financial returns but also adhering to high standards of conduct, ultimately supporting responsible and principled investment strategies (Gibbons & Legrand, 2020).

The governance aspect of sustainable investment is crucial for ensuring organizational accountability and ethical management of investments. It establishes clear standards and practices that promote transparency and integrity. Effective governance frameworks help ensure that investments are used responsibly and align with ethical principles. This approach supports the broader objective of maintaining high standards of conduct and sustainability in investment practices (ESG Investing, 2020).

Organizations can adopt multiple strategies to foster ethical behavior and avoid misconduct. This includes creating corporate policies and objectives, enforcing a code of ethics, and establishing robust internal control systems. These measures help ensure adherence to ethical standards and proper conduct within the organization Dahle & Lütz, (2020).

According to Dahle and Lütz (2020), robust governance helps organizations tackle and achieve their environmental, social, and governance (ESG) objectives related to investments. Effective governance facilitates a proactive stance on environmental issues, social protection, and human rights. Thus, it is a critical component of the sustainable investment process, enabling organizations to leverage their ethical resources effectively. Aich et al. (2021) highlighted that implementing appropriate governance frameworks and systems ensures investments meet sustainability goals and adhere to responsible, ethical standards.

Good governance is pivotal in sustainable investment as it guarantees that organizations are held accountable for their actions and that investments are utilized in a proper and effective manner (Dahle & Lütz, 2020). It plays a crucial role in helping organizations identify and manage ESG risks related to their investments, while also proactively addressing issues concerning social responsibility, environmental impact, and human rights. Through the implementation of well-designed governance frameworks and

procedures, organizations can ensure that their investments align with sustainability objectives and adhere to high standards of responsibility and ethics. This comprehensive approach not only safeguards the integrity of investments but also reinforces the commitment to responsible and ethical practices across all levels of decision-making (Aich et al., 2021).

2.2 Theoretical review

This section describes various theories concerning sustainable finance, including the priority theory, resource theory, peer emulation theory, life span theory, and positive signaling theory.

Priority Theory of Sustainable Finance

The priority theory of sustainable finance posits that the commitment of economic agents to achieving sustainable finance objectives in a particular country or region mirrors the importance placed on these goals within that area (Wilson, 2010). This prioritization can be evaluated through three dimensions:

- (i) The level of coordination, independence, and collaboration among economic agents in pursuing sustainable finance objectives,
- (ii) The speed at which consensus is achieved, and
- (iii) The rate at which actions are undertaken to reach these goals.

Economic agents prioritize various objectives differently, these priorities can be ranked from least to most important. The position of sustainable finance goals within this hierarchy indicates their relative significance to economic agents. These priorities can evolve over time due to changing national or global conditions. When sustainable finance is ranked as a top priority, economic agents are likely to dedicate substantial efforts to achieving these goals (Kuhn, 2020). Conversely, if it is not a top priority, there will be less effort invested (Krauss et al., 2016).

For instance, financial institutions may demonstrate their commitment to sustainable finance by embedding its principles into their core business practices, thus making sustainability a key guiding principle (Setyowati, 2020; Cunha et al., 2021). Prioritizing sustainable finance may have trade-offs, potentially leading to the deferral of other significant goals until the sustainable finance objectives are met. This trade-off can be expensive, potentially discouraging the prioritization of sustainable finance over other

essential objectives. For instance, developing countries with pressing economic development needs, such as increasing GDP per capita, might consider sustainable finance a secondary priority. Therefore, the priority given to sustainable finance goals depends on the importance of other goals at the time of consideration.

The priority theory of sustainable finance offers two key advantages. Firstly, it recognizes that economic agents have multiple important priorities, enabling the inclusion of sustainable finance as one of these priorities. Second, it provides a means for economic agents to articulate the significance they place on sustainable finance goals, which can be communicated through public announcements or other methods (Pinchot and Christianson, 2020).

Peer Emulation Theory of Sustainable Finance

According to the peer emulation theory of sustainable finance, in order to achieve the aims of sustainable finance, economic agents frequently imitate the behaviors, laws, and tactics of their peers. This theory suggests that in the absence of uniform standards for sustainable finance, economic agents adopt similar approaches to those of respected peers. Economic agents will pursue specific sustainable finance goals by emulating their peers, especially when they share similar views and ideologies on sustainability (Cowett, 2008). When societal, political and economic values align within an economy, there is a stronger inclination to follow peers in achieving sustainable financial goals. For instance, countries with aligned perspectives on climate change are more likely to adopt similar sustainable finance policies and practices to meet their respective goals. (Ditlev et al., 2011).

The peer emulation theory of sustainable finance offers five key benefits. First, it allows economic agents to align with peers who have similar societal, economic, and political ideals regarding sustainable finance. Second, it facilitates quicker and easier adoption of established sustainable finance policies and actions, requiring minimal adjustments. Third, adopting existing policies from peers is generally less costly than developing new strategies, as it requires fewer resources. Fourth, it enables enhancements to the policies and actions already adopted by peers, making them more effective and appealing for subsequent adopters. Fifth, the theory promotes collaboration rather than competition among peers, focusing on shared goals and mutual benefits.

Life Span Theory of Sustainable Finance

The life span theory of sustainable finance is derived from Vernon's product cycle hypothesis. This theory suggests that the level of interest in sustainable finance is shaped by the life cycle of its products, services, instruments, schemes, policies, or activities. It argues that knowledgeable economic agents understand that sustainable finance products go through a life cycle, which includes their introduction, growth, maturity and eventual decline. Understanding this cycle allows economic agents to make informed predictions about the anticipated longevity of specific sustainable finance products. Based on these predictions, they can decide whether to commit to sustainable finance for the short term, long term, or not at all. Thus, the degree of support for sustainable finance, as well as the shift from traditional to sustainable financing, is influenced by the perceived duration of a specific sustainable finance product (Vernon, 1979).

According to this theory, if economic agents believe that a particular sustainable finance product will have a brief existence or that the sustainable finance agenda will soon wane, they may reduce their support or make only short-term commitments. Conversely, if they perceive that the product will endure or that sustainable finance will replace traditional finance as the new mainstream model, they are likely to increase their support and commit long-term (Vernon, 1979).

The life span theory of sustainable finance offers two main benefits. Firstly, it offers a solid explanation for the varying demand or support for particular sustainable finance instruments, such as green bonds. Agents who believe in the long-term growth and dominance of green bonds are likely to invest heavily in them. Conversely, if they view the green bond market as temporary, they may reduce or avoid investment. Second, the theory acknowledges the importance of expectations regarding the longevity of sustainable finance products (Vernon, 1979).

Positive Signaling Theory

The positive signaling theory suggests that economic agents are driven to share favorable information about their commitment to achieving sustainable finance goals to convey positive news to external parties who can support their objectives (Quatrini, 2021; Park, 2018). Economic agents may reveal positive information about their sustainable finance efforts through public announcements or by including additional voluntary financial and

non-financial details in their annual reports. For example, companies might highlight their latest sustainable finance instruments or green bonds to attract investors interested in sustainability. Such disclosures can appeal to investors focused on green bonds. Similarly, a government might publicly declare its intention to implement a national sustainable finance policy. This can enhance the country's sustainability reputation, signal readiness to receive foreign technical support, and attract significant foreign direct investment for green projects (Park, 2018).

The positive signaling theory has the advantage of reducing information asymmetry between investors and firms. However, it also has drawbacks. First, disclosing positive information does not guarantee that economic agents will act on it. Second, frequent positive disclosures may be used to obscure negative information, such as a firm hiding recent investment losses related to fossil fuels while promoting its sustainable investment intentions (Quatrini, 2021)

2.3 Empirical Review

Filippini et al., (2024) examined the sustainable finance literacy of Swiss households, which is their capacity to recognize and assess financial products considering their sustainability aspects. Employing both multiple-choice and open-ended questions, the research reveals that although Swiss households tend to be financially literate overall, their understanding of sustainable finance is relatively lacking. Nevertheless, individuals with better sustainable finance knowledge are more inclined to invest in sustainable products. These results highlight the necessity for clear regulatory standards and informative campaigns to improve awareness and comprehension of sustainable financial options.

Olumekor and Oke (2024) investigated Support for sustainable finance and investment in Europe. In order to achieve environmental sustainability, sustainable investment and financing are becoming crucial. Additionally, evidence points to its increased prominence inside the global financial system. Despite a recent rise in scholarly interest, the majority of earlier research has looked into backing for environmentally friendly finance in business settings. There are few studies that look at public or private assistance. Consequently, this study investigates backing for equitable finance among Europeans using data from a Euro barometer poll of 27,862 respondents from all 27 EU member

states. We investigated the relationship between demographic variables, understanding of sustainable finance, and a nation's advancement toward achieving the Sustainable Development Goals (SDGs) of the UN using a two-level nested fixed effects model. Our findings indicate shows the most important indicators of support for equitable funding are socio demographic variables. We discovered that support for sustainable financing was influenced by people's age, gender, and whether they lived in an urban or rural region. In the meantime, there was little to no correlation between the advancement of the SDGs and knowledge of sustainable finance.

Oyewole et al., (2024) investigated the incorporation of Artificial Intelligence (AI) into sustainable finance, showcasing its potential to reshape financial practices in line with Environmental, Social, and Governance (ESG) standards. Through a systematic review and analysis of AI applications, challenges, and strategies, the research illuminates how AI can enhance the efficiency, accuracy, and sustainability of financial operations. Key findings highlight AI technologies like the Financial Maximally Filtered Graph (FMFG) algorithm, which greatly streamline data processing and analysis for sustainable investment decisions. Integrating AI into sustainable finance, however, comes with challenges related to ethics, regulations, and technology. The study offers strategic suggestions to address these obstacles, stressing the importance of robust policy frameworks, industry standards, and a balanced approach to AI implementation. Ultimately, the study underscores AI's potential to advance sustainable finance, providing guidance for stakeholders navigating this complex integration for a more sustainable and resilient financial system.

Qian & Yu (2024) investigated how firms' participation in environmental, social and corporate governance (ESG) initiatives impacts their sustainable development, focusing on China's Green Financial System Guidelines. Employing a difference-in-differences approach, the research examines the policy's effect on ESG performance. Results reveal that the policy adoption enhances ESG performance, particularly among heavily polluting enterprises. Additionally, the policy exacerbates financing constraints for these firms. Furthermore, the positive impact of the green finance policy on ESG performance is stronger for companies with stronger internal and external governance structures.

Alshater et al., (2023) conducted a bibliometric analysis of the Journal of Sustainable Finance and Investment (JSFI) from 2011 to 2020. Using the Scopus database and tools like RStudio, VOS viewer and Excel, it examines 263 publications to track content trends. Various bibliometric indicators, such as publication and citation analysis, along with bibliographic coupling, keyword analysis and content analysis, are utilized. Findings reveal consistent publication rates until 2019, followed by a recent decline in citations. Notably, topics like 'Sustainable finance' and 'ESG' have seen increased interest, while 'Corporate governance' and 'Socially responsible investment' have declined. Key themes encompass corporate social responsibility, sustainable finance, corporate governance, and responsible investment. Overall, the study provides valuable insights into JSFI's publication and citation trends, as well as its thematic structure.

Starks (2023) financial markets have grappled with challenges like the 2008 Great Financial Crisis, climate change and the COVID-19 pandemic, leading to the adoption of the environmental, social and governance (ESG) model for socioeconomic advancement. While the performance of ESG funds remains uncertain due to vague definitions and data limitations, studies generally suggest a positive link between ESG factors and company financial performance, especially in the long term. ESG investments also exhibit better resilience during crises compared to traditional funds. Despite the absence of legal barriers, Poland has been slow to embrace the ESG model, particularly in the financial sector, with only a small fraction of investment funds deeply integrating ESG criteria. This highlights educational and communication challenges as significant barriers to sustainable finance development in Poland, emphasizing the need for comprehensive education for all investment stakeholders.

According to Ogunode et al. (2022), there are several approaches to making sustainable investments. For individuals aiming to align their financial objectives with their environmental values, one effective investment strategy is to invest in companies directly through the stock market or through mutual funds and exchange-traded funds that focus on sustainability.

Migliorelli (2021), contended that implementing sustainable finance policies and procedures has allowed for the effective allocation of financial resources. This, in turn, supports the transition towards a more responsible society and a greener economy.

Popescu et al. (2021), Investigated that the investors increasingly demand that asset managers measure the non-financial performance of investment portfolios to ensure funds contribute to priority sectors for transitioning to a low-carbon, inclusive economy and avoid green washing. This critical review assesses current sustainability measurement methods for investment funds, drawing from industry and academia, using a seven-criterion matrix derived from academic and international organization reports. Although carbon footprints, exposure metrics, and ESG ratings are widely used, they inadequately capture the real-world sustainability impact of investments. The review advocates for prioritizing open-source, science-based and sustainability-driven assessment methods, augmented by measuring positive impact creation and adopting a life cycle perspective. Emphasizing alignment with science-based sustainable development targets and integrating forward-looking perspectives, along with assessing investor additionally, emerges as essential for future research and reporting standards.

Cunha et al. (2021) investigated the realm of sustainable finance and investment. The study reveals that sustainable finance and investment contribute to long-term global development by enabling actors in this field to collaborate and achieve positive social and environmental outcomes through their financial activities. However, it also highlights major challenges, such as the inadequate conceptualization of sustainable finance and investment and the typically short-term orientation prevalent in financial perspectives.

Sommer (2020) Sustainable finance is defined as the mobilization and allocation of capital to facilitate the transition to a more sustainable economy. According to the International Capital Market Association, sustainable finance includes climate, green and social finance, with a focus on the long-term economic sustainability of funded organizations and the stability of the broader financial system in which they function.

Gomes (2020), over the past two decades, socially responsible investment (SRI) has transitioned from a relatively obscure topic to a focal point of research and discourse in Economics and Finance. This growing interest stems from two primary factors. Firstly, investors are increasingly considering ethical, social, environmental and political factors alongside financial analysis in their decision-making processes. Secondly, there has been a shift in economic science towards incorporating behavioral elements, departing from traditional rational deliberation frameworks. This study presents an intertemporal model designed to evaluate how social and environmental awareness affects investors' decisions

and investment performance. The model, based on optimal control framework, illuminates the trade-off between financial returns and the satisfaction derived from investing in ethically guided firms or projects.

Schumacher et al. (2020) explored the role of sustainable finance and investment in Japan, emphasizing how the Japanese financial sector can address increasing climate risks and support the transition to a zero-carbon, sustainable economy. It demonstrated that the Japanese financial sector and its institutions face substantial climate risks from both domestic and international sources. The sector has started to address these climate-related risks and align itself with the sustainable development goals and the 2°C warming targets outlined in the Paris Climate Agreement.

Pedersen et al., (2020), Corporations that emphasize sustainable initiatives attract high-quality investors who are willing to pay a premium for their shares. Furthermore, companies with a robust commitment to sustainability are often more adept at managing climate change risks, as stakeholders increasingly prefer firms that actively work to lower their greenhouse gas emissions. Additionally, incorporating sustainable investments into a portfolio can help mitigate risks related to social, environmental, and governance practices.

Pedersen et al., (2020) examined that Investors are now paying more attention to the potential returns of investments as well as their effects on society, the environment, and the economy. This investment strategy is gaining popularity and is projected to experience significant growth in the near future.

Durrani et al., (2020) Explored how central banks contribute to the growth and expansion of sustainable finance. This paper outlines the findings from a survey of 18 central banks in Asia and the Pacific, focusing on their perspectives and policies concerning sustainable finance. It also reviews recent actions by monetary and financial authorities in these regions to address climate and environmental risks and enhance sustainable finance. The survey shows that sustainable finance is increasingly important to monetary authorities, especially in countries severely affected by climate change. Most respondents believe they should promote green finance and sustainable funding through regulatory changes,

encouraging green loans, or incorporating climate considerations in policy. Many central banks are already promoting sustainable.

Urban and Wójcik (2019) examined how investment banks incorporate sustainability into their underwriting services. It found that these banks persisted in supporting the underwriting of companies with notable environmental, social, and governance issues. Moreover, they showed no reluctance to underwrite companies associated with controversial products like tobacco, coal, and nuclear weapons.

Giovanni Ferri and Bonnie Annette Acosta (2019) sustainable finance for sustainable development. The paper examines how ethical and sustainable finance is essential for sustainable development, addressing environmental risks through green finance and linking finance to inequality reduction. It provides a framework for analyzing markets and instruments with a sustainable focus, highlighting the benefits of cooperative banks, the evolution of Sustainable and Responsible Investing (SRI) funds, and the use of ESG criteria. It also explores the roles of microfinance, Islamic finance, and Fintech in financial inclusion and innovation. Lastly, it presents five policy recommendations to support sustainable development, emphasizing the importance of promoting sustainable footprint certification.

Table 1

Summary of Empirical Review

SN	Authors	Title	Objectives	Methodology	Findings
1.	Olumeko r and Oke (2024)	Support for sustainable finance and investment in Europe.	To examine the impact of sociodemogra phics, sustainable finance knowledge, and SDG progress.	Quota based sampling, regression analysis	Knowledge of sustainable finance had either little or a detrimental impact on the advancement of the SDGs.

2. Filippini et al. (2024) Ecological spending the factors that determine ethical investing and illiteracy. To examine the sustainable finance literacy and invest in sustainable product. Multiple regression analysis. Result shows individuals with better sustainable finance knowledge are more inclined to invest in sustainable products.

3. Oyewole et al., (2024) Promoting sustainability in finance with AI To investigate the incorporation of Artificial Intelligence (AI) into sustainable finance. Systematic literature review. AI's potential to advance sustainable finance, providing guidance for stakeholders navigating this complex integration for a more sustainable and resilient financial system.

4. Qian & Yu (2024) Green finance and ESG performance. To examine the effect of the green finance policy on ESG performance. Difference-in-differences design. For businesses with stronger internal and external control frameworks, the positive effects of the green lending strategy on sustainability performance are more evident.

5. Alshater et al., (2023) Journal of sustainable finance and investment To bibliometric analysis of the Journal of Sustainable Finance and Investment (JSFI) from 2011 to 2020. Publication and citation analysis. Sustainable finance and ESG have seen increased interest, while corporate governance and Socially responsible investment' has declined.
6. Starks (2023) Sustainable finance and ESG issues- Value versus values To understand sustainable finance and ESG issue. Regression Positive link between ESG factors and company financial performance.
7. Peterson K. Ozili (2022) Theories of Sustainable Finance To propose six theories to explain economic agents' behavior towards sustainable finance. literature survey to develop six theories to enhance understanding of economic agents' actions towards sustainability and guide future research and policy.
8. Migliorelli (2021) What does the term "sustainable finance" mean? Assessing To understand the finance for sustainability. Literature review and regression. Strong relationship between Finance and sustainability.

existing
frameworks
and policy
risks

9. Popescu et al. (2021) Assessing the sustainability of investment funds: An extensive review of approaches and models in sustainable finance. To examine sustainability and investment decision Open-source, science-based, and sustainability-driven assessment methods. Positive impact creation and adopting a life cycle perspective.
10. Cunha et al. (2021) Sustainable finance and investment: A review and future research directions. To investigate the realm of sustainable finance and investment. Systematic literature review. Findings show that participants in sustainable finance and investment collaborate to achieve positive social and environmental outcome through their financial and investment efforts.
11. Sommer (2020) Sustainable Finance: An Overview To understand the finance for sustainability. Literature review and regression Strong relationship between Finance and sustainability.
12. Gomes (2020) Optimal growth in the growth model. To examine the growth Inter-temporal model. Illuminates the trade-off between

- socially and socially responsible and socially responsible investment: a dynamic theoretical model balancing financial gains with emotional rewards. financial returns and the satisfaction derived from investing in ethically guided firms or projects.
13. Schumacher et al., (2020) Sustainable finance in Japan to investigate the function of sustainable investment and finance in Japan. Paris Agreement Capital Transition Assessment. The results indicate that the Japanese financial sector and its institutions face substantial climate risks originating from both domestic and international sources.
14. Pedersen et al., (2020) Responsible investing: The ESG-efficient frontier To examine responsible investing and ESG efficient. Capital asset pricing model Businesses that put an emphasis on initiatives that promote sustainability attract high-quality investors willing to offer more on shares in the

company.

15. Durrani et al (2020) The role of central banks in expanding sustainable finance: Insights from monetary authorities in Asia and the Pacific? To analyze the role of central banks in scaling up sustainable finance in Asia and Pacific region. Survey questions Central bank and monetary authority can help to facilitate capital market access for green bond issuers, assist in reducing issuing cost

 16. Urban & Wójcik (2019) Dirty banking: Investigating the gap in sustainable finance. To investigate how investment banks integrate sustainability in their underwriting services. Literature review and regression. Investment banks persist in supporting underwriting firms that have been identified for significant environmental, social and governance violations.

 17. Giovanni Ferri and Bonnie Annette Acosta (2019) Sustainable Finance for Sustainable Development To explore how ethical finance supports development and offers policy recommendations. Theoretical analysis, financial sector discussions, and policy recommendations. Promoting sustainable footprint certification is key to supporting sustainable development.
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ons for
enhancing
sustainability.

2.4 Research gap

There is a significant gap in research regarding sustainable finance and investment decision making, despite increasing interest in integrating SLG within ESG factors into investment strategies. One area lacking thorough exploration is the quantitative analysis of SLG integration's impact on investment decision making. While studies highlight the positive correlation between SLG factors and financial performance, there's a need for more empirical research to quantify the financial benefits and risks associated with sustainability criteria across various asset classes and regions. Additionally, the behavioral aspects influencing sustainable investment decisions remain largely unexplored. Understanding the psychological factors shaping investors' attitudes and decision-making processes regarding SLG integration is crucial for developing effective strategies to promote sustainable finance. Another gap lies in the comprehensive assessment of long-term performance and risk management implications of sustainable finance strategies. While initial evidence suggests that sustainable investments demonstrate resilience and outperformance over the long term, further investigation is needed to examine their performance across different market conditions and economic cycles. Moreover, the integration of climate-related financial risks into investment decision making requires more attention. Research should focus on developing methodologies for assessing and quantifying climate risks, as well as identifying effective strategies for incorporating climate considerations into investment frameworks. Additionally, understanding the impact of policy and regulatory changes on investment strategies is essential for navigating the evolving landscape of sustainable finance. In the context of Nepal there is very limited research on this topic moreover the previous work done in long ago.

CHAPTER – III

RESEARCH METHODOLOGY

The research methodology for a study on sustainable finance and investment decision making includes a mixed-methods approach, combining quantitative and qualitative data to provide a comprehensive analysis. Stratified random sampling is employed to select a diverse sample of 250 banking professionals. This chapter explains about the research design, sampling design, data analysis method, population and sample size, nature and sources of data collection method used in this study.

3.1 Research design

The study used descriptive and causal-comparative research design. Studies that gather descriptive data benefit most from this method. The study will largely be descriptive in nature and that's why this design is preferred. The design will be used when describing the characteristics of a phenomenon in a particular situation. The causal-comparative design will help to ascertain the cause-effect relationship between the variables. For obtaining information on the current status of sustainable finance and investment decision making in Nepal.

Following steps were taken for this research:

- Existing literature including published research studies and secondary data will be examined.
- Questionnaire will be given to people who are working in commercial banks.
- Some arbitrarily selected cases will be analyzed.

3.2 Population and sample, and sampling design

In the study, the targeted population includes 20 commercial banks currently operating in Nepal. Using the simple random sampling method, two banks namely Nabil Bank Limited and Nepal Bank Limited are selected as the sample. Questionnaires are distributed to 250 staff members from these banks (out of approximate 4000 staff). Although the sample size is relatively small, the information obtained is expected to be highly valuable.

3.3 Nature and sources of data collection

In this research, both primary and secondary data will be employed. As the research method, a survey will be employed. The structured questionnaire will be the source of the primary data. However, the analysis part will only include the primary data; secondary data will be used for literature review (books, journals, articles, and magazines). In the process of conducting this research, data will be collected from various individuals and from Kathmandu. A structured questionnaire will be prepared and distributed to the respondents, and valid responses will be collected after distribution.

The questionnaire will be structured questionnaire in nature, and the following method will be used as per the situation:

Electronically by using e-mail, the Internet: In the online questionnaire, a form questionnaire will be designed like a regular questionnaire where several questions are presented on a page. The respondent will complete each question and scroll down to the bottom of the page. In case of unreachable respondents, this method will be used.

3.4 Methods of analysis

Secondary data is collected from the book, journals, articles etc. in this study, I gathered data through primary source based on structured questionnaire and analyzed by using descriptive statistics, by using SPSS, correlation analysis, multiple regression analysis, Cronbach's Alpha and statistical techniques like mean, frequency and standard deviation.

Mean or Average

The arithmetic mean, often referred to as the "average," is the most widely recognized and utilized measure of central tendency. It is determined by adding up all the values in a dataset and then dividing the total by the number of values. This mathematical calculation provides the arithmetic average of a variable.

It is denoted by following formula

$$\text{Mean, } (X) = \frac{\sum X}{N}$$

Where, $\sum X$ = Sum of the observations,

N = no. of observations.

Standard deviation

The standard deviation (S.D.) is the most precise estimate of how spread out the data points are. It improves upon the mean deviation and avoids the limitations of other dispersion metrics. S.D. measures the level of dispersion in a dataset relative to its mean. A low standard deviation indicates that the values tend to be close to the mean, while a high standard deviation suggests that the values are spread over a wide range.

It is denoted by following formula

$$\text{S.D } (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

Where $\sigma = \text{S.D}$,

X = Terms given in data,

$\bar{X}$ = Mean,

N = no of observations.

Correlation analysis

Correlation analysis is a statistical method used to determine the degree and direction of the association between two variables. The correlation coefficient, denoted as "r," ranges from -1 to 1. A value of 1 indicates a perfect positive correlation, meaning both variables increase at the same rate. A value of -1 indicates a perfect negative correlation, meaning one variable increase while the other decreases equally. A value of 0 indicates no correlation, meaning there is no consistent relationship between the variables.

It is denoted by following formula.

$$r = \frac{N\sum XY - (\sum X)(\sum Y)}{\sqrt{N\sum X^2 - (\sum X)^2} \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

Where, N = no. of observations,

$\sum X$ = sum of observations in series X ,

$\sum Y$ = sum of observations in series Y .

Multiple regression analysis

One way to characterize multiple regression analysis would be as a statistical method for examining the causal connection between one independent variable (predictor) and multiple dependent variables (criterion). The goal of multiple regression analysis is to forecast the changes in the dependent variable in response to changes in the independent variables. It can be interpreted as how good a predictor your multiple regressions are

likely to be. Additionally, multiple determination can be understood as the percentage of variation in the dependent variables that the regression equation can explain. The multiple regression equation is as follows:

$$ID = \alpha + \beta * SE + \beta * LE + \beta * CG$$

Where:

ID = Investment Decision

α = Constant Value

β = Regression Coefficients

SE = Social Environment

LE = Legal Environment

CG = Corporate Governance

Reliability and Validity

Reliability ensures that the results of an instrument are stable and consistent. Validity, however, refers to whether the individual results of an instrument are significant and enable the researcher to draw accurate conclusions from the sample population under study (Mohamad, Sulaiman, Sern, & Salleh, 2015). Reliability is often assessed using Cronbach's alpha (α) coefficient, a common measure in quantitative studies, which ranges from 0 to 1.0. An instrument is considered highly reliable if it has a reliability coefficient of $\alpha > .80$, very reliable if $\alpha > .70$, and reliable if $\alpha > .60$. When $\alpha < .60$, the reliability is deemed poor to barely reliable. The reliability of an instrument impacts its validity, as a reliable instrument accurately measures what it is intended to measure rather than something else. Consequently, results from reliable instruments are valid and more precise (Burg-Brown, 2016).

Validity and reliability of Likert Scale

Cronbach's alpha is a standard measure used to assess the internal consistency of a questionnaire composed of multiple Likert-type scales and items. Previous studies have established the reliability of Likert scales using Cronbach's Alpha Coefficients to ensure the stability and accuracy of the data collection instrument (Ekung et al., 2015). A value of 0.78 was obtained, indicating strong stability and reliability. It is generally accepted that a reliability coefficient of 0.70 is adequate, with lower coefficients considered insufficient (Nunnally & Bernstein, 1978). According to Gliem & Gliem (2003),

Cronbach's alpha typically ranges from 0 to 1, with higher values closer to 1.0 indicating greater reliability.

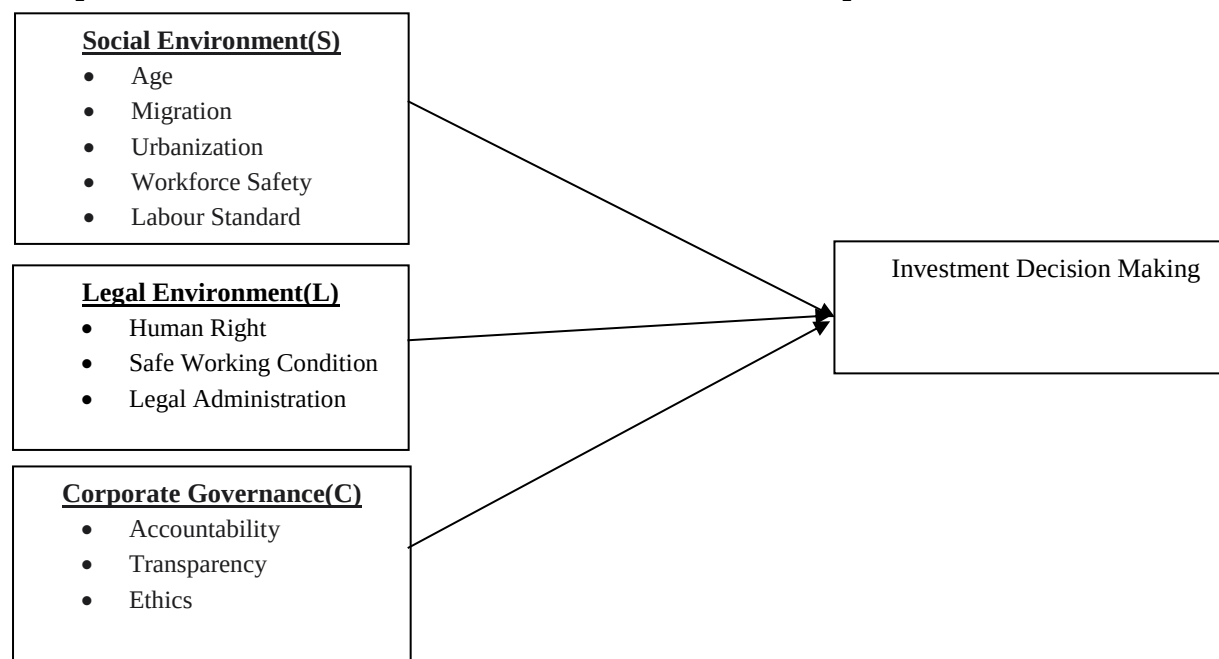
3.5 Research framework and definition of variables

Based on the objectives of the dissertation, the study follows the simplified diagram presented as:

Figure 1

Research Framework

Independent variables



(Source: Starks, 2023; Cunha et al. 2021)

Definition of Variables

Social environment (SE): Social factors in ESG relate to how a company affects society and its stakeholders, covering aspects like workplace safety, human rights, labor standards, diversity, and access to healthcare. Studies in advanced economies have demonstrated that these social considerations are crucial for investors when assessing ESG performance (Huang, 2019).

Legal environment (LE): The legal environment consists of three components: the home, host, and global settings (Gratchev, 2011). The home environment requires international companies to comply fully with local laws and regulations, regardless of the

company's influence. This component of the legal environment includes the administrative responsibilities of the legislative and judicial branches of government that affect business operations (Gómez and Spencer, 2012).

Corporate governance (CG): Governance factors involve the organizational and oversight aspects of an investment, focusing on how the project is managed, its level of transparency, and its accountability measures. Investors scrutinize these elements to ensure that their investments are handled with clear and responsible practices. Effective governance is crucial for maintaining trust and ensuring that investments are executed ethically and transparently. (Gomes, 2020; Townsend, 2020).

Investment decision making (IDM): Investment decisions are increasingly considering environmental, social, and governance (ESG) factors, marking a shift towards more sustainable and ethical investing practices. The objective is to make choices that not only meet financial goals but also resonate with the investor's values. This approach reflects a growing emphasis on aligning investments with broader societal and environmental considerations. (Cunha et al.,2021).

CHAPTER – IV

RESULTS AND DISCUSSION

The results derived from the analysis of data have been presented so as to expedite the comprehension of the results in relation to the objectives of the study. To achieve the best results, the data were analyzed following the research methodology outlined in Chapter 3. The aim of this chapter is to explain the mechanics of data analysis and interpretation. It has been categorically presented in accordance with the array of the tools used for discerning the relationship and relevancy between the data and the objective. This chapter includes analysis with primary data pool and its findings.

4.1 Results

In this section of results, the study examines the sustainability of finance and investment decision making using statistical tools like descriptive statistics and inferential statistics. Descriptive statistics encompass measures such as arithmetic mean and standard deviation offering an overview of the dataset. Inferential statistics involve analyses like Karl Pearson's correlation analysis and multiple regression analysis to explore variable relationships and determine the impact of different factors on investment decision making.

Reliability analysis

Cronbach's alpha measure's reliability, or internal consistency. It evaluates the reliability of multiple-question Likert scale surveys. A general guideline for interpreting alpha Likert scale questions is:

Table 2*Reliability Analysis*

Cronbach's Alpha	Internal Consistency
$\alpha \geq 0.9$	Excellent
$0.9 > \alpha \geq 0.8$	Good
$0.8 > \alpha \geq 0.7$	Acceptable
$0.7 > \alpha \geq 0.6$	Questionable
$0.6 > \alpha \geq 0.5$	Poor
$0.5 > \alpha$	Unacceptable

*(Source: MBS1st Semester Statistics Book of Dreamland Publication)***Current status of sustainable finance in investment decision making**

The table 3 indicates the value of alpha obtained was 0.765 which is greater than 0.7 and lesser than 0.8. It denotes that the reliability of the study was acceptable and good which concludes that the result from the study is reliable.

Table 3*Reliability and Validity of the Questions Related to Current Status of Sustainable Finance in Investment Decision Making*

Cronbach's Alpha	N of Items
0.765	10

(Source: Survey, 2024)

In the study conducted, the value of alpha obtained was 0.765 which is greater than 0.7 and lesser than 0.8. It denotes that the reliability of the study was acceptable and good which concludes that the result from the study is reliable.

Social Environment**Table 4***Reliability And Validity of The Question Related to Social Environment*

Cronbach's Alpha	N of Items
0.798	10

(Source: Survey, 2024)

In the study conducted, the value of alpha obtained was 0.798 which is greater than 0.7 and lesser than 0.8. It denotes that the reliability of the study was acceptable and good which concludes that the result from the study is reliable.

Legal Environment

Table 5

Reliability And Validity of The Question Related to Legal Environment

Cronbach's Alpha	N of Items
0.738	9

(Source: Survey, 2024)

In the below table 5 shows that alpha obtained 0.738 which is greater than 0.7 and lesser than 0.8. It denotes that the reliability of the study was acceptable and good which concludes that the result from the study is reliable.

Corporate Governance

Table 6

Reliability And Validity of The Question Related to Corporate Governance

Cronbach's Alpha	N of Items
0.731	8

(Source: Survey, 2024)

In the study conducted, the value of alpha obtained was 0.731 which is greater than 0.7 and lesser than 0.8. It denotes that the reliability of the study was acceptable and good which concludes that the result from the study is reliable.

Investment decision making

Table 7

Reliability And Validity of The Question Related to Investment Decision Making

Cronbach's Alpha	N of Items
0.766	8

(Source: Survey, 2024)

In the study conducted, the value of alpha obtained was 0.766 which is greater than 0.7 and lesser than 0.8. It denotes that the reliability of the study was acceptable and good which concludes that the result from the study is reliable.

Demographic Characteristics

This section discusses the results of the general information about the respondents, including their gender and the organization.

Organization of the Respondent

Here the Table 8 indicates the frequency of the organization of the selected sample banks. Out of the total respondents 60.8% of the respondents worked at Nabil Bank and 39.2% worked at Nepal Bank different departments with various job roles.

Table 8

Organization profile of the respondent

Organization	Frequency	Percentage
Nabil Bank Limited	152	60.8
Nepal Bank Limited	98	39.2
Total	250	100.0

(Source: Survey, 2024)

Gender of the Respondent

Table 9

Gender profile of the respondent

Gender	Frequency	Percentage
Female	114	45.6
Male	136	54.4
Total	250	100.0

(Source: Survey, 2024)

The respondents were requested to specify their gender, and the results are displayed in Table 9 45.6% of respondents were female whereas, 54.4% of respondents are male. This indicates that both men and women are equally drawn to work in banks, with nearly the same level of priority given to both genders.

Age of the respondent

Table 10

Age of the respondent

Age group	Frequency	Percentage
18-24	54	21.6
25-34	90	36.0
35-44	85	34.0
45 and above	21	8.4
Total	250	100.0

(Source: Survey, 2024)

Table 10 shows the classification of the respondents by their age. It shows 21.6% of the respondents are 18-24 years, 36% lies between age group of 25-34 years, 34% of the respondent lies between 35-44 of years and 8.4% of the respondent lies in 45 and above age group. This indicates that over half of the respondents are in the early or mid-career stages.

Marital Status of the respondent

Table 11

Marital status of the respondent

Status	Frequency	Percentage
Married	157	62.8
Single	93	37.2
Total	250	100.0

(Source: Survey, 2024)

The respondents were asked to indicate their marital status. Of them, 62.8% are married, while 37.2% are single.

Length of service of the respondent

Table 12

Length of service of the respondent

Time Period	Frequency	Percentage
10-15 years	32	12.8
2-5 years	94	37.6
6-10 years	47	18.8
Above 15 years	10	4.0
Below 2 years	67	26.8
Total	250	100.0

(Source: Survey, 2024)

Table 12 displays the classification of respondents' length of service in the organization. It was observed that 12.8% of the respondents have been with their current organization for less than 10-15 years, while 37.6% have been employed for 2-5 years. Additionally, 18.8% of the respondents have worked with their current organization for 6-10 years, and 4% have been with their organization for more than 15 years. Meanwhile, 26.8% of respondents have been employed at their present organization for less than 2 years. This distribution highlights the varied tenure of employees within the organization. Income level of respondent.

Table 13 displays the classification of respondents' monthly income in the organization. It is seen that 5.6% of the respondents have earn up to 30,000.0 NPR monthly. So that 33.2% of the respondent have earn between 30,001-45,000 NPR, 31.2% of respondent have monthly income range of 45,001-60,000 and 30% of respondent have earn monthly 60,000 and above.

Table 13*Income level of the respondent*

Monthly Income	Frequency	Percentage
0-30,000 NPR	14	5.6
30,001 -45,000 NPR	83	33.2
45001 -60,000 NPR	78	31.2
60,000 NPR and above	75	30
Total	250	100.0

*(Source: Survey, 2024)***Job role of the respondent****Table 14***Job role profile of the respondent*

Position	Frequency	Percentage
Assistant	93	37.2
Officer	70	28
Managerial	71	28.4
Executive	16	6.4
Total	250	100.0

(Source: Survey, 2024)

Respondents were requested to describe their job roles within their organization. The findings reveal that 37.2% of the respondents are currently employed in assistant positions, while 28% hold officer-level roles. Additionally, 28.4% of the respondents occupy managerial posts, and 6.4% are in executive roles. This distribution of job roles highlights a diverse range of positions held by respondents, reflecting varying levels of responsibility and experience within their organizations.

Education Level of Respondent

Table 15

Education level of the respondent

Education Level	Frequency	Percentage
12 th pass	12	4.8
Bachelor's degree	95	38.0
Master's degree	143	57.2
Total	250	100.0

(Source: Survey, 2024)

Table 15 displays the education level of respondents. It is seen that 4.8% of the respondents are 12th passed, whereas 38% respondent were having bachelor degree and remaining 57.2% are master's degree.

Descriptive Statistics

The responses under both dependent and independent variables of the data sample were preliminary analyzed. This preliminary analysis included search for missing data, estimation of outliers and estimation of mean, median and standard deviation. After removing missing data 5% upper bound and 5% lower bound outliers were estimated. Descriptive statistics has been made to understand the facts regarding the Sustainable finance and investment decision making. The results in terms of mean and standard deviation are analyzed

The table shows the descriptive statistics of current status of sustainable finance, social environment, legal environment, governance and investment decision making of 2 The study sampled 250 observations from commercial banks. Descriptive statistics include the mean, minimum, maximum, and standard deviation.

The below table 16 shows the descriptive analysis shows that, mean of current status of sustainable finance is 4.0792 whereas mean of social environment is 4.0188. Again, mean of legal environment is 4.0884 where mean of governance is at 4.0365 and mean value of investment decision making 4.0630. The descriptive analysis shows that the mean for each variable exceeds 3. Additionally, the standard deviation for each variable is less than 1. According to Cohen (2003), for data to exhibit a normal distribution, the standard

deviation should fall within the range of 0 to 1. Since the standard deviations of three variables are within this range, it suggests that the data may be normally distributed.

Table 16

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
RQN1	250	2.10	5.00	4.0792	0.45536
RQN2	250	1.90	5.00	4.0188	0.50651
RQN3	250	2.00	4.89	4.0884	0.45495
RQN4	250	1.75	4.75	4.0365	0.49557
RQN5	250	1.75	4.88	4.0630	0.43966
Valid N (list-wise)	250				

(Source: SPSS Version 29)

Inferential Statistics

Inferential statistics are designed to make predictions or generalizations about a larger population based on the relationships and patterns observed in a sample. This branch of statistics helps determine whether the differences observed between groups in a dataset are significant enough to substantiate the hypothesis that these differences are reflective of the broader population. By analyzing sample data, inferential statistics allow researchers to assess the likelihood that observed patterns and variations are not due to random chance but instead represent genuine relationships that exist in the entire population. This process aids in evaluating the validity of hypotheses regarding group differences and supports making informed conclusions about the population based on sample findings.

Correlation Analysis

Correlation is a statistical measure that reflects how much two or more variables change together. Specifically, the correlation coefficient quantifies the extent to which changes in one variable can predict changes in another. In this study, the correlation between the dependent variable investment decision-making and the independent variable, sustainable finance (represented by the SLG variable), was analyzed. To test the hypothesis, a correlation matrix was employed, using Pearson's correlation coefficient to measure the relationship between these variables. The results of this analysis are presented in the table

below, providing insights into the strength and direction of the correlation between investment decision-making and sustainable finance.

Table 17

Correlation between sustainable finance (SLG variables) and investment decision making

		RQN1	RQN2	RQN3	RQN4	RQN5
RQN1	Pearson	1	0.496**	0.578**	0.535**	0.412**
	Correlation		<0.001	<0.001	<0.001	<0.001
	Sig. (2-tailed)		250	250	250	250
	N					
RQN2	Pearson		1	0.474**	0.436**	0.395**
	Correlation			<0.001	<0.001	<0.001
	Sig. (2-tailed)			250	250	250
	N					
RQN3	Pearson			1	0.543**	0.501**
	Correlation				<0.001	<0.001
	Sig. (2-tailed)				250	250
	N					
RQN4	Pearson				1	0.427**
	Correlation					<0.001
	Sig. (2-tailed)					250
	N					
RQN5	Pearson					1
	Correlation					
	Sig. (2-tailed)					
	N					

**. The correlation is significant at the 0.01 level (two-tailed).

(Source: SPSS Version 29)

From the results shown in Table 17 investment decision making has $r = 0.395$ correlation with social environment. Therefore, there is a positive relationship between these two variables. Similarly, the correlation between investment decision-making and the legal environment is 0.501, indicating a positive correlation. Additionally, the correlation between investment decision-making and corporate governance is 0.427, also showing a

positive correlation. The p-value is recorded at 0.000, which is highly significant, suggesting that within the sample, there is a positive relationship between investment decision-making and both the social environment, legal environment and corporate governance. Further, it can be interpreted that increase in one variable result in increase in another one also. Result concluded hypothesis 1, 2 and 3 is accepted at 0.01 level of significance.

Multiple Regression Analysis

The regression table presents the results for the constant, the coefficient of determination, and the t-value. The coefficient, which is the slope of the regression line, indicates how much change in the dependent variable is caused by a one-unit change in the independent variable. The coefficient of determination (R^2) shows the extent to which the variation in the dependent variable is explained by the independent variable.

Table 18

Model Summary

		Std. Error Change Statistics							
	R	Adjusted	of	the R	Square F				Sig.
Model	R	Square	R Square	Estimate	Change	Change	df1	df2	Change
1	.552 ^a	0.304	0.296	0.36895	0.304	35.864	3	246	<0.001

a. Predictors: (Constant), RQN2, RQN3, RQN4

(Source: SPSS Version 29)

Model summary results in the Table 18 indicate that there is significant and positive relationship between independent variables and dependent variable ($R=0.552$). The value is 0.304 of coefficient of determination (R^2) that reveals independent variables (social environment, legal environment and corporate governance) account to 30.4% variation in investment decision making and this can be observed that other factors might be there that bring variation of 69.6% in the outcome variable.

Table 19*ANOVA*

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	14.646	3	4.882	35.864	<0.001 ^b
	Residual	33.487	246	0.136		
	Total	48.133	249			

a. Dependent Variable: RQN5

b. Predictors: (Constant), RQN2, RQN3, RQN4

(Source: SPSS Version 29)

ANOVA results in Table 19 shows that the regression model is appropriated in measuring the relationship between independent variables (social environment, legal environment and corporate governance) and dependent variable is investment decision making. This is shown by a significant F-statistical test ($F=35.864$; $p<0.01$).

Table 20*Regression Analysis for Dependent Variable Investment Decision Making*

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.565	0.243		6.440	<0.001
	Social Environment	0.141	0.054	0.162	2.604	0.010
	Legal Environment	0.316	0.064	0.327	4.906	<0.001
	Corporate Governance	0.159	0.058	0.179	2.739	0.007

a. Dependent Variable: Investment Decision Making

(Source: SPSS Version 29)

The Table 20 shows the regression analysis which depicts independent variables like social environment, legal environment and corporate governance contribute significantly ($p<0.05$ & $\alpha=0.05$) to the investment decision making.

The results of regression interpret the coefficient value 0.162 which shows one Percentage (1%) change in social environment (independent variable) can result in 16.2% change in investment decision making (dependent variable). Therefore, if independent variable (social environment) is increased by 1%, this will result in 16.2% increase in dependent variable (investment decision making). The t value for the hypothesis is 2.604 that social environment is a major predictor of investment decision making.

The results of regression interpret the coefficient value 0.327 which shows one Percentage (1%) change in legal environment (independent variable) can result in 32.7% change in investment decision making (dependent variable). Therefore, if independent variable (legal environment) is increased by 1%, this will result in 32.7% increase in dependent variable (investment decision making). The t value for the hypothesis is 4.906 that legal environment is a major predictor of investment decision making.

The results of regression interpret the coefficient value 0.179 which shows one Percentage (1%) change in corporate governance (independent variable) can result in 17.9% change in investment decision making (dependent variable). Therefore, if independent variable (corporate governance) is increased by 1%, this will result in 17.9% increase in dependent variable (investment decision making). The t value for the hypothesis is 2.739 that corporate governance is a major predictor of investment decision making.

4.2 Discussion

The primary goal of this research was to evaluate sustainable finance and investment decision-making practices among commercial banks in Nepal. The majority of respondents, through their responses, underscored the significant influence of the social environment on investment decisions. According to responses social environment (Age, Migration, Urbanization, Workforce Safety and Labor Standard) variables positively impact on the investment decision making.

Investment decision making plays a pivotal role in sustainable finance, intricately linked with the social environment, legal environment, governance, and the overall status of sustainable finance. The descriptive analysis shows that all variables have mean values above 4, indicating positive perceptions across the board, with low standard deviations

suggesting consistent responses. A supportive social environment fosters a culture that values sustainability, while a robust legal environment provides necessary regulations and protections, enhancing investor confidence. Strong governance ensures transparency and accountability, crucial for ethical investments. As sustainable finance matures and gains acceptance, it positively influences investment decisions, creating a reinforcing cycle. The interconnectedness of these variables highlights the importance of a holistic approach to fostering a conducive atmosphere for sustainable investments, ultimately contributing to a more sustainable financial system.

Conversely, inferential statistics produced tabulated results displaying correlations, coefficients, and regressions based on data from 250 respondents collected through questionnaires. By applying linear regression to examine the cause-and-effect relationships between independent variables (social environment, legal environment, governance) and the dependent variable (investment decision-making), the results mentioned above were obtained. The correlation analysis demonstrates that investment decision making is positively influenced by the social environment, legal environment, and corporate governance. The correlation coefficient (r) between investment decision making and the social environment is 0.395, indicating a moderate positive relationship. The correlation with the legal environment is stronger at 0.501, suggesting a substantial positive influence. Similarly, the correlation with corporate governance is 0.427, reflecting a moderate positive relationship. The p -value for these correlations is 0.000, which is highly significant. This indicates that the positive relationships between investment decision making and the other variables are statistically robust and not due to random variation. Therefore, as the social environment, legal environment, and corporate governance improve, investment decision making also improves. These results validate hypotheses 1, 2, and 3 at the 0.01 level of significance, confirming that there is a significant positive relationship between investment decision making and the social environment, legal environment, and corporate governance. This suggests that enhancing these areas can lead to better investment decisions, contributing to the overall effectiveness of sustainable finance practices. Ahmed and Scott (2020) similarly concluded that in recent years, the awareness of the importance of social factors in sustainable investment has grown significantly. Social factors encompass the broader impacts of investments on society, including critical issues such as human rights, labor standards, and environmental consequences. Recognizing these factors is essential for ensuring that investments not only yield financial returns but also contribute positively to

social well-being and avoid perpetuating harm. By integrating these considerations into investment decisions, stakeholders can promote ethical practices and support initiatives that foster societal progress, thereby ensuring that their investments align with both their financial goals and their commitment to social responsibility (Kendall, 2020).

The primary objective of the current study was to examine direct relationships between sustainable finance variables (social environment, legal environment and corporate governance) and investment decision making. In line with the proposed hypotheses, the data analysis results demonstrated that social environment factors have a positive relationship with investment decision-making (confirming Hypothesis 1). Additionally, the findings revealed a positive relationship between legal environment factors and investment decision-making (confirming Hypothesis 2). Furthermore, there is also a positive relationship between corporate governance factors and investment decision-making (confirming Hypothesis 3)

The studies of Cunha et al. (2021) results indicate that actors engaged in sustainable finance and investment work together to produce favorable social and environmental outcomes through financial and investment activities. Since independent variables have positive impact on dependent variable which is consistent to Starks (2023) but shows contradict to Filippini et al. (2024). Since all p value is less than 0.01, the alternative hypothesis is accepted.

CHAPTER – V

SUMMARY AND CONCLUSIONS

This chapter provides an analytical discussion of the study presented in the previous chapter. The focus of the study was on sustainable finance and investment decision-making within commercial banks in Nepal. Additionally, this chapter includes the study's recommendations and conclusions, highlighting areas for further research.

5.1 Summary

The aim of this study was to examine the impact of sustainable finance on investment decision-making within commercial banks in Nepal. The specific objectives were to: examine the current status of sustainable finance and investment decision-making practices in Nepal; explore the relationship between the social environment, legal environment, and corporate governance in investment decision-making; and assess the impact of sustainable finance on investment decision-making. The study employed a descriptive research design and conducted a case study involving 250 staff members from selected commercial banks in Nepal. Data were collected using a self-prepared questionnaire administered to randomly selected employees. The data analysis was performed using the Statistical Package for Social Sciences (SPSS) version 29.0.

Using the major findings, it can be concluded that the respondents agree on sustainable finance have effect on investment decision making. The response of the respondents is less dispersed and approximately asymmetric for social environment, legal environment and corporate governance.

Furthermore, the study findings established a positive significant relationship between the dependent variable (investment decision making) and independent variables (social environment, legal environment and corporate governance).

5.2 Conclusion

Based on the results of the study, it became clear that sustainable finance is growing and the variables of sustainable finance are positively impact on investment decision making.

Although the respondents were aware of the various aspects sustainable finance. Today's investors are focusing on sustainable investment with less risk and long-term return.

The study concluded that social environmental factors play a significant role in an investor's decision-making process. Key aspects such as age, migration, urbanization, workforce safety and labor standards were identified as crucial elements of the social environment, all of which positively influence investment decisions. Additionally, the study emphasized the importance for investors to analyze social phenomena before making investment choices. Organizations that adhere to social norms and maintain a socially accepted status tend to attract better investment opportunities from investors.

The study examined the relationship between sustainable finance variables—social environment, legal environment, and corporate governance—and investment decision making among commercial banks in Nepal. The findings reveal a significant and positive correlation between these variables and investment decisions. Specifically, the correlation coefficients indicate moderate to substantial positive relationships: 0.395 for the social environment, 0.501 for the legal environment, and 0.427 for corporate governance. The p-values for these correlations were recorded at 0.000, demonstrating high statistical significance.

The regression analysis further supports these relationships, with the independent variables accounting for 30.4% of the variation in investment decision making. This suggests that while social, legal and governance factors are influential, other factors contribute to the remaining 69.6% of the variation. The ANOVA results confirm the appropriateness of the regression model, with a significant F-statistic.

Descriptive analysis indicates that respondents perceive these variables positively, with mean values above 4 and low standard deviations, reflecting consistent responses. The study highlights the crucial role of a supportive social environment, robust legal framework, and strong governance in fostering sustainable finance practices. As these elements improve, they positively influence investment decisions, reinforcing a cycle of sustainable financial growth.

Overall, the research validates the hypotheses that improvements in the social environment, legal environment, and corporate governance lead to better investment

decisions. This aligns with prior studies, emphasizing the growing recognition of social factors in sustainable investment. Enhancing these areas can significantly contribute to more effective and ethical investment practices, ultimately supporting the development of a sustainable financial system.

5.3 Implications

Based on the results of the study, several managerial implications emerge. Firstly, it is evident that sustainable finance is on the rise, with its variables positively impacting investment decision-making. Investors are increasingly focusing on sustainable investments that offer lower risk and long-term returns. To capitalize on this trend, managers should integrate sustainable finance principles into their investment strategies to attract environmentally and socially conscious investors.

Moreover, the study underscores the importance of considering social and legal environmental factors in investment decisions. Social factors such as demographics, migration, urbanization, workforce safety and labor standards significantly influence investor choices, highlighting the need for businesses to align with societal norms and maintain a positive social image to attract investments.

From a legal perspective, organizations must prioritize upholding human rights, ensuring workplace safety and maintaining ethical practices. These factors not only mitigate legal risks but also enhance investor confidence and positively impact investment decisions. Furthermore, the study emphasizes that strong corporate governance practices such as accountability, transparency and ethical behavior are critical. Nepalese commercial banks, in particular, should ensure that their governance practices not only support sound investment decisions but also bolster organizational performance and reputation. This approach not only attracts investors but also fosters sustainable and long-term investments in Nepal's financial sector.

In essence, by embracing sustainable finance principles, addressing social and legal environmental factors and implementing robust corporate governance practices, managers can effectively enhance investment decision-making processes and position their organizations for sustainable growth and investor confidence in Nepal.

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APPENDIX

Survey Questionnaire Form

Dear Respondents,

I am conducting this questionnaire survey for academic research as required by the MBS program. The title of research is "**Sustainable Finance and Investment Decision Making**". I would like to state that this research is purely for an academic purpose and I am simply interested in your candid and honest opinion. I assure you that strict confidentiality will be maintained and the information furnished by you will be used only for academic purpose.

Thank you in advance for your co-operation.

Gajendra Bahadur Thapa

MBS Student

Shanker Dev Campus, Kathmandu

Part I: BIO-DATA

1. Name

2. Please specify your gender

- Female
- Male
- Prefer not to specify

3. Please indicate your age range

- 18–24
- 25–34
- 35–44
- 45 and above

4. What is your highest level of completed education?

- 12th Pass
- Bachelor's degree
- Master's degree

5. Employee Level

- Assistant Level

- Officer Level
- Managerial Level
- Executive Level

6. Marital status

- Single
- Married

7. Please select the income category that best describes your financial situation (Monthly).

- 0–30,000 NPR
- 30,001–45,000 NPR
- 45,001–60,000 NPR
- 60001 NPR and above

8. Organization

- Nepal Bank Limited
- Nabil Bank Limited

9. How long have you been working?

- Below 2 years
- 2-5 years
- 6-10 years
- 10-15 years
- above15 years

Part II

Listed below are several statements about yourself that you may agree or disagree with. Using the responses scale below, indicate your agreement or disagreement with each item by choosing an appropriate number. Please give your responses as follows:

1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = Strongly Agree

A) Current status of sustainable finance in investment decision making

STATEMENTS	1	2	3	4	5
SLG variables are widely adopted by investors in Nepal.					
There is a significant variety of sustainable financial products available in					

Nepal that focus on sustainability (Share, debenture and mutual funds).					
The market for sustainable finance (investments, lending, capital allocation for sustainable development) is growing rapidly in Nepal.					
Nepalese government policies and regulations are effectively promoting sustainable financial product.					
There is a high demand in sustainable financial product investment among individual investors in Nepal.					
Sustainable financial product investments generally provide competitive financial returns in Nepalese market.					
The lack of standardized SLG data is a major barrier to sustainable financial product investment in Nepal.					
Cultural attitudes towards sustainability financial product in Nepal are supportive.					
Investment decision making in sustainable financial products is positive.					

B) Social Environment

STATEMENTS	1	2	3	4	5
Education, labour standard and work place safety influence in investment decision.					
High labour standards in a region are essential when I consider investment opportunities.					
Public opinion on policy, rules and regulations impacts on the investment strategy.					
Positive community relations are a key factor in investment decisions.					
Media coverage of social issues affects investment choices.					
Organization culture affects into investment decision					

The pace of urbanization in a location directly impacts the potential return on investments.					
High levels of migration in a region positively influence our investment decisions.					
Employees and stakeholders' engagement impacts on investment decision					

C) Legal Environment

STATEMENTS	1	2	3	4	5
Organization follows the practice of compensation law, regulations, tax policy and government policies.					
Organizations must comply with employment laws, regulations related with recruitment and selection, termination, discrimination, and workplace safety.					
Investors also look at duties of workers and organization behavior towards employees.					
Organizations shall protect intellectual property rights such as patents, trademarks, and copyrights of the investors.					
Organization exploits the forced labour, child labour and other form of labour abused.					
Organizations must comply with consumer protection laws					
Legal considerations related to supply chain contracts, vendor agreements, and logistics arrangements impact's investment decisions					
Organization ensures that workers are treated equally and have access of safe working condition.					

D) Corporate Governance

STATEMENTS	1	2	3	4	5
Transparency, accountability and security ensures the companies standards for successful operation and fosters strong professional relationship with					

stakeholders in investment decision making.					
Organization with good corporate governance practices are accompanied by higher level of investment decision making.					
Legal responsibilities of directors and management influence investment decisions.					
Pressure groups lead companies to improve their corporate governance.					
Board size, proportion of independent directors, role of company secretary and CEO are insignificantly associated with research and development for the investment decision on company.					
Ownership structure and board characteristics is significantly associated with research and development for investment decision making.					
The duality role of same person signifies weak corporate governance performance					
Corporate Governance ensure the organization to practice their rights and duties with ethical norms and values for investment decision making.					

E) Investment decision making

STATEMENTS	1	2	3	4	5
Board characteristics, CEO duality and Board size are positively related with investment decision.					
Age, migration and urbanization impacts the investment decision making.					
Employment and income distribution affects the investment decision making.					
Globalization and inflation positively impact investment decision making.					
Organization profit, long-term investment opportunity for growth and prosperity impacts in investment decision making.					
Laws, regulation, regulatory framework positively impacts security for investment decision making.					

Government policies promote for the short-term and long-term investment decision making.					
Work place safety, labor standard impacts the investment decision making.					

(Source: Starks, 2023; Alshater et al., 2023; Qian & Yu, 2024)

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