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FULL TEXTS BOOK

Editors

Assoc. Prof. Dr. Mehmet Emin KALGI
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**Double blinded evaluation process*



THE IMPACT OF SUSTAINABLE FINANCE MARKETS ON THE CORPORATE CONDUCT. STATE-OF-THE-ART RESEARCH

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ABSTRACT

The introduction of sustainability in financial markets (SFM), especially through sustainable finance domains, has emerged as a response to the need for transformation, transitioning the focus from the goal of financial profit to one that also encompasses social well-being and environmental conservation. This paper aims to investigate the state of the art of the effect of SFM implementation on investment choices and corporate conduct. In addition, this paper thoroughly examines the significance and impact of integrating SFM investments into a diversified portfolio, noting that the influence of sustainable criteria on asset allocation varies by context, becoming critical when distributing resources across different regions or sectors within a specific asset category. The mean-variance- model proposed in this review, serves as a useful tool for investors seeking to effectively integrate SFM factors into their asset allocation strategies, offering a balanced approach to optimizing portfolios that considers financial aims and ethical and social concerns, especially in emerging countries. Results reveal that the implementation of SFM criteria is tailored to the preferences and objectives of investors, with the reassuring observation that shifts in asset allocation towards high-scoring investments do not seem to affect the absolute or risk-adjusted returns of portfolios significantly. In conclusion, current research reveals that when applying these strategies to financial domains, it is crucial to monitor the development of risks related to extraordinary occurrences such as environmental disasters or corporate issues, to ensure flexibility and resilience for investors aiming to align financial interests with sustainable goals, facilitated by tools such as the benchmark.

Keywords: sustainable development goals, sustainable finance, assets, mean-variance-model, environmental resilience

Introduction

Sustainable finance has emerged as a critical element of the global financial system, with significant implications for corporate conduct (Asimakopoulos et al., 2023; Kumar et al.,2022; Soppe,2004). As sustainability concerns grow, driven by climate change, social inequalities, and governance issues, financial markets adapt to integrate environmental, social, and governance (ESG) factors into investment decisions (Kumar et al.,2022). The rise of sustainable finance markets has reshaped corporate behavior, driving firms to reconsider their strategies, operations, and long-term objectives (Billio et al.,2024). As a result, more companies are being held accountable for their impact on the environment and society, shifting corporate conduct

towards a more responsible and ethical approach (Billio et al.,2024). Considering this evolving landscape, there is a growing interest in understanding the impact of sustainable finance markets on corporate conduct. This research aims to provide a state-of-the-art overview of the impact of sustainable finance markets on corporate conduct, particularly focusing on how these markets influence corporate strategies, governance, risk management, and performance. This paper is structured in the following manner. Initially, a comprehensive overview of the methodology and research questions will be presented, followed by an in-depth examination of the current state-of-the-art review and qualitative findings. Finally, concluding observations will emphasize significant points regarding the development and prospective directions discussed within the paper.

Methodology

This paper will employ a qualitative research methodology using state-of-the-art reviews to gather insights into how sustainable finance markets influence corporate conduct across different industries and geographical contexts.

Research Questions:

This research aims to explore the following questions:

RQ1. What is the evolution of sustainable finance markets and their role in shaping corporate behavior?

RQ2. How does sustainable finance impact corporate governance, including board decisions, risk management, and transparency?

RQ3. What is the relationship between ESG performance and corporate financial performance, focusing on how sustainable finance influences profitability, growth, and stakeholder value?

Qualitative findings of the State-of-the-art review

The relationship between sustainable finance and corporate conduct has been the subject of increasing academic interest (Billio et al.,2024; Kumar et al.,2022; Busch,2021; Liang and Renneboog,2020; Soppe,2004). Sustainable finance represents a concept within the fields of economics and finance, increasingly gaining significance on a global scale (Thomas & Rajini,2024). Within a framework marked by rising apprehensions regarding the environmental, social, and governance repercussions of economic actions, sustainable finance seeks to incorporate considerations of sustainability and social responsibility into investment choices, risk assessment, and financial strategizing (Thomas & Rajini,2024).

Sustainable finance can thus be characterized as the utilization of environmental, social, and governance (ESG) criteria in the decision-making processes related to investments, financial administration, and resource distribution (Thomas & Rajini,2024; Ongsakul et al., 2024; Ilic,2023). The primary aim of sustainable finance is to enhance the favorable impacts on the environment and society while mitigating adverse effects and augmenting the adaptability of the economic system over the long term (Ongsakul et al.,2024). The key argument for

sustainable finance is the awareness of the need to balance financial objectives with social and environmental ones (Zairis et al.,2024). Traditional finance, however, has often overlooked or underestimated the negative side effects that financial activities can have on the environment and society and is not considered an integral part of the investment analysis (Zairis et al.,2024; Nicholls,2021). This means that investors, both institutional and private, consider the ESG implications of their financial decisions, including:

1. ***Sustainable investments***: encouraging the financing of projects and companies that contribute to the transition to a sustainable economy, such as renewable energy sources, sustainable mobility, and responsible management of natural resources (Marszk & Lechman, 2023).
2. ***Corporate social responsibility***: encouraging companies to take an interest in the consequences of the social and environmental impacts of their activities and to adopt responsible practices in their operations (McGrath & Jonker, 2024).
3. ***Investor engagement***: Sustainable investors shape the actions of the firms in which they invest through dialogue, voting on corporate policies, and active participation in organizational decisions (Marszk & Lechman,2023).
4. ***ESG Reporting***: Corporations are urged to disclose details on their social and environmental effects, thereby providing investors with transparent insights into their operational practices (Krantz & Jonker,2025).
5. ***Risk Management***: Assess and mitigate financial risks associated with ESG considerations, discussed in the subsequent chapter, including risks related to climate change or issues tied to corporate governance controversies (Jonker,2025).

Additionally, assessing the effects of sustainable investments poses a significant challenge in validating the efficacy of the strategies employed. Climate change and environmental considerations are pertinent for central banks for distinct reasons, including the emergence of risks that may jeopardize the stability of the financial system and macroeconomic implications for the monetary policies of nations (Ionescu,2021). Moreover, the establishment of the Sustainable Finance Working Group within the European Union has been initiated to encourage the development of superior sustainable finance strategies and facilitate the transition toward resilient and environmentally sustainable economies (see Platform on Sustainable Finance,2025).

In 2018, the European Commission released an Action Plan focused on Sustainable Finance, which established a framework to enhance the financial sector's contribution under the Paris Agreement on climate change, aiming to limit the rise in global temperatures and mitigate glacier melting (see the Paris Agreement on Climate change,2024). Following this, the plan has experienced several revisions in response to the evolution of the ESG (Environmental, Social, and Governance) market, advocating for increased information transparency and the oversight of market evaluations and ESG-related risks (Vu et al.,2024). To promote sustainable

finance, it should enhance guidance and oversight by the Competent National Authorities. The creation of a strategic roadmap is crucial to steer EU member states towards sustainable financial markets complemented by sufficient financial education (Lo,2024; Wang et al.,2023). Consequently, the implemented measures are designed to channel capital towards sustainable investments, manage financial risks associated with climate change and resource depletion, enhance transparency, and foster a long-term perspective in economic and financial activities.

This roadmap can be modified following current needs. A proposal of its development is depicted below:

The circular economy and sustainable finance are two interconnected concepts that are increasingly gaining relevance in our society (Kumar et al.,2023; Sepetis,2021). Both aim to promote a responsible and sustainable approach to economic development and resource management, but they operate on distinct levels. The circular economy represents an alternative economic framework that contrasts with the conventional linear economic model characterized by a "take, use, and dispose" mentality (Kumar et al.,2023). Rather than engaging in unsustainable practices of production, consumption, and disposal, the circular economy focuses on minimizing waste and resource consumption while optimizing product life cycles (Velenturf & Purnell, 2021). This paradigm fosters the reuse, recycling, and regeneration of resources, creating a closed loop wherein materials, products, and resources maintain their value for extended periods (Velenturf & Purnell,2021). Such an approach aids in curtailing the depletion of natural resources, reducing waste and pollution, and lessening the environmental repercussions of human activities. Sustainable finance and circular economy are intricately interconnected and mutually beneficial. Embracing a circular economic framework can yield sustainable and lucrative investment prospects (Kumar et al.,2023; Sepetis, 2022; Velenturf & Purnell,2021). Organizations that implement circular methods are frequently more resilient and better equipped to manage environmental, social, and governance challenges, rendering them appealing to sustainable investors (Caldecott et al.,2024; Asimakopoulos et al.,2024). Therefore, sustainable finance is pivotal in advancing the circular economy. Sustainable investments on the other side, can support projects and initiatives, such as the research and development of sustainable technologies, the adoption of more efficient production techniques, and the encouragement of circular business practices (Caldecott et al.,2024). By integrating the circular economy with sustainable finance, it is plausible to forge a synergistic future where economic advancement aligns with social well-being and environmental stewardship (Caldecott et al.,2024). The implementation of circular practices can not only facilitate the attainment of sustainable development goals but also generate new employment opportunities, stimulate innovation, and enhance corporate competitiveness (Popovic et al.,2022). Studies indicate that sustainable investments can yield financial returns that are comparable to, or even exceed, those of traditional investments (Caldecott,2024). In recent years, sustainable finance has experienced a substantial increase in capital flows, particularly evident in 2022-2023, reflecting a growing investor interest in sustainable investment opportunities (see UN Trade and Development,2024). Companies are incorporating sustainability as an essential aspect of their

business strategies by establishing carbon reduction goals, promoting energy efficiency, and implementing corporate social responsibility practices(ivi). These sustainable initiatives can bolster corporate reputations, attract responsible investors, and enhance consumer loyalty. The same trajectory pursued by the European Commission has gained enhanced importance due to two policy modifications. The European Green Deal, in 2019, aims to reform the EU into a modern, sustainable, and climate-neutral economic region by 2050(see the EU Green Deal and Investment Plan,2020). This involves a target of reducing greenhouse gas emissions by 55% by 2030 relative to 1990 levels and achieving net zero CO₂ emissions (ivi).

The second initiative is the Next Generation EU, unveiled in 2020 in response to the economic and social upheaval resulting from the Covid-19 pandemic (see the Next Generation EU,2020). This plan is designed to assist EU Member States in mitigating the adverse effects of the pandemic while fostering a sustainable and resilient economic recovery. The program is funded through loans procured on behalf of the EU from financial markets.

To gain access to this funding, Member States are required to submit national recovery and resilience plans, which must receive approval from the European Commission and subsequent ratification from the European Council, aligned with the principles of the European Green Deal (Gharleghi et al., 2024). These directives present an exceptional opportunity for EU nations to invest in a green and resilient recovery, while fostering economic and social convergence within the Union, thereby preparing for a stronger and more inclusive future. Sustainable finance also involves several subcategories, one of which is Green Finance, specifically targeting investments and financial activities aimed at supporting environmentally oriented projects and initiatives focused on combating climate change (Afzal et al.,2022; Brühl,2021). The principal objective here is to fund projects and activities that facilitate a transition toward a low-carbon and low-environmental impact economy. The key characteristics of Green Finance thus include an emphasis on environmental outcomes, including investments that yield a positive environmental impact, such as renewable energy, energy efficiency, sustainable transportation, and biodiversity preservation. To ensure the genuine sustainability and validity of the financed initiatives, particular standards and certifications are employed, such as green bonds and the EU Taxonomy guidelines on sustainability, engaging both the public and private sectors (Brühl,2021). The EU "Taxonomy" regulation of 2020(see EU taxonomy for Green Finance,2020) is aimed at establishing a classification system conducive to the formulation of a vocabulary for sustainable investments, which can be utilized by economic stakeholders and investors in funding projects and economic activities that exert a favorable influence on the environment and climate. The regulatory framework is predicated on the reform and innovation of existing financial resources, an examination of fiscal policy types, and exploring avenues for financing the development of green initiatives. Among the frequently utilized financial instruments are bonds, including green bonds, and equities (Brühl,2021).

Overview of the world's major financial systems

US Financial System

The financial system of the United States is primarily oriented towards financial markets rather than banking institutions (see Trading Economics,2025). It is founded upon the Federal Reserve System (FED), which serves as the central banking authority of the United States of America (Brennan,2024). The framework involves the decentralization of authority across twelve regional Federal Reserves, reflecting an intention to prevent the concentration of power that is characteristic of the United States. The FED supervises the two principal stock exchanges: the New York Stock Exchange (NYSE) and the Nasdaq (NSDQ) (cited in Singh and Jain,2022). The regulatory framework in the US is extensive and can be understood clearly by examining its historical progression (Singh and Jain,2022):

- a. National Bank Act 1863: enables the establishment of a national banking system characterized by banks with restricted powers to deter centralization.
- b. Federal Reserve Act 1913: establishes the FED with a regional framework.
- c. Glass-Steagall Act 1933: following a period of crisis, it implements deposit insurance and abolishes universal banks, thereby separating commercial and investment operations.
- d. Securities and Exchange Commission (SEC) 1934: post the 1929 crisis, the formation of this commission became essential for regulating financial markets and ensuring their integrity.
- e. Riegle-Neal Interstate Banking and Branching Efficiency Act 1994: removes interstate restrictions on banking activities beginning in 1997.
- f. Gramm-Leach-Bliley Financial Services Modernization Act 1999: supersedes the Glass-Steagall Act, effectively permitting the reinstatement of universal banks.
- g. Dodd-Frank Wall Street Reform and Consumer Protection Act 2010: enacted in response to the crisis of 2008, this legislation regulates financial practices in the United States to safeguard consumers and the integrity of the US financial system; succinctly, the US banking system has demonstrated considerable fragmentation, which has fostered the evolution of financial markets.
- h. The New York Stock Exchange (NYSE) represents the largest stock market globally by trading volume and ranks second in terms of the number of listed companies, trailing only the NASDAQ. This exchange was founded in 1971 as a corporation with legal status and limited liability for its shareholders.

Trading occurs through physical auctions directed by a specialist, who is also responsible for maintaining equilibrium between supply and demand, occasionally intervening with personal quotes (Caprio and Arner,2013). Over time, beginning in 1976, a gradual shift from human-centric trade execution toward electronic trading was initiated (Caprio and Arner,2013). Notably, in 2006, a hybrid trading system was implemented that allowed brokers the option to execute their orders electronically or via the specialist. The NASDAQ (National Association of

Securities Dealers Automated Quotation) was the inaugural fully electronic stock exchange in the world. It ranks first regarding the total number of listed companies, boasting over 3,000 309. The organization managing the market is identified as "The NASDAQ Stock Market Inc." (Team,2024). The US market operates under three tiers of subscription: *level 3* subscribers are registered market operators, meaning firms that create a market for the securities, maintain an inventory, and publish the bid and ask prices at which they are prepared to facilitate trades; *level 2* subscribers receive quotations but cannot generate them. Typically, these are brokerage firms acting on behalf of their customers. Finally, *level 1* subscribers only obtain information regarding quotations without insight into the volume of securities traded. These are investors seeking to understand market prices without engaging in the buying or selling of securities (Caprio and Arner,2013).

UK Financial System

The financial system of the United Kingdom is defined by a market-oriented approach, akin to that of the United States (Panova,2021). The Bank of England serves as the central bank, overseeing the stability, efficiency, and advancement of the financial system, having been established in 1964 (Panova,2021; Caprio and Arner,2013). Unlike numerous other central banks, it does not possess complete independence, as its role is confined to providing advice on decisions and executing them. The London Stock Exchange (LSE), which was established in 1802, represents a crucial mechanism for financing both enterprises and the government within the UK (see LSE,2025). Its growth can be credited to three principal factors: the annulment of the Bubble Act in 1824, which had restricted company listings; the abolishment of the requirement for royal consent for company formation in 1856; and the significant engagement with financial markets during the railway expansion both domestically and internationally. This marketplace functioned as an international financial hub until 1918 when the NYSE (Panova,2021) overtook it. Transactions are now facilitated through electronic methods. The primary financial stock index in the UK is the FTSE 100 (Financial Times Stock Exchange), which tracks the one hundred largest corporations in the United Kingdom (Young,2024).

Japanese Financial System

The Japanese financial system is bank-oriented, resulting in banks assuming a significant role in capital provision (Eijffinger & Van Rixtel, 1992). The government's involvement is crucial, as it is overseen by both the Ministry of Japan and the Bank of Japan (Eijffinger & Van Rixtel, 1992; Kosai & Ogino,1984). Given the strong ties that banks have cultivated with corporations, financing via stock or bond markets is regarded as less significant, even though these financial markets have gained relevance in recent years and certain previous restrictions have been lifted (Kosai & Ogino,1984). The Tokyo Stock Exchange is recognized as one of the largest stock exchanges globally, organized and operated by a private entity that was once public. Trading is conducted through an electronic and telematic infrastructure (Panova,2021). The major stock index that reflects the performance listed on the Japanese stock market is Nikkei.

Correlation between ESG Investments and Economic Returns on Investments (ROI)

The United Nations Principles for Responsible Investments (UN-PRI) represents a United Nations-driven initiative that has established six principles for the integration of Environmental, Social, and Governance (ESG) factors into financial asset management (see PRI,2024). These principles employ a commitment to embedding ESG factors within financial analyses and decision-making processes, as well as incorporating them into ownership policies. Nevertheless, despite the guidance provided by UNPRI on how institutional investors can assimilate ESG elements into their asset management practices, the sector still lacks established “best practice” standards (PRI,2024). Consequently, there exists a prevalent inconsistency in the terminology employed by market participants and in the methods of ESG integration utilized. Presently, market participants engage in three dominant approaches to ESG investing, each associated with distinct investment objectives (Vu et al.,2025). Certain investors seek to embody their values through their investments and strive to circumvent companies that do not correspond with their ethical, religious, or political convictions. Typically, these investors utilize ESG research to eliminate companies involved in activities deemed unethical, such as fossil fuels, weapons, or alcohol (Zairis et al.,2024; Chang et al.,2022). In this context, value-based investing is primarily concerned with engendering positive societal outcomes (Chang et al.,2022). Another segment of investors includes those companies that prioritize generating a beneficial social impact globally, selecting companies that provide solutions to environmental or social challenges (Chang et al.,2022). They assess not only the ROI but also the social and environmental effects these investments create. These investors rely on frameworks such as the SDGs. Growing research suggests that ESG factors can be used to identify well-managed companies and those that may be negatively impacted by evolving environmental, social, and technological regulations (Billio et al.,2022). In this sense, institutional investors are increasingly adopting ESG integration to minimize risks and achieve sustainable ROI in the long term (Billio et al.,2022). However, the primary goal of ESG integration, along with active ownership, remains financial i.e., to achieve better and more sustainable financial performance in investment portfolios (Mehdyiev,2023). This approach should consider information that is relevant and meaningful for both the company and the industry. While previous studies have focused on the potential correlation between ESG and future financial returns (Zhou,2024), more recent studies have broadened their scope and examined the financial characteristics of strong ESG corporates (Chen et al.,2024). These studies suggest that companies with strong ESG practices often have a lower cost of capital, lower volatility, and fewer corruption incidents (Oikonomou et al. 2012). In contrast, companies with weak ESG practices have an excessive cost of capital, higher volatility due to litigation and other issues, as well as governance irregularities (Burcă et al., 2024). Is the correlation between corporation proneness toward ESG practices and the corporation’s good financial operability causal relationship? Which is the cause and which is the effect? Our research findings have shown that stronger financial positions precede engagement in ESG practices. This means that an external stimulus should

occur to increase the engagement in ESG practices among low-performing corporates. Since there are counterexamples, this is perceived as a sufficient, not necessary, precondition.

In their study, Giese et al. (2019) examined how securities information is disseminated to stock markets. The authors analyzed the differences in financial characteristics between firms with high ESG ratings and those with low ESG ratings and suggested that ESG information is disseminated through “*transmission channels*.” They suggested three channels for the transmission of ESG information to stock markets, which can be integrated into a conventional Discounted Cash Flow (DCF) model applicable for assessing the “fair value” of stocks (Giese et al.,2019). This methodology is grounded in the notion that the integration of ESG factors can affect the market valuation of a company via information that is exclusive to the latter (referred to as the “*idiosyncratic transmission channel*”) or through information that is relevant to the entire market (designated as the “*systematic channel*”). Within the idiosyncratic transmission channel, ESG information may be conveyed through a company's capacity to generate cash flows or through its exposure to “tail risk” (Horn,2023). However, the risk associated with cash flow can be mitigated, consistent with the tenets of the Capital Asset Pricing Model (CAPM) (Mohanasundaram & Kasilingam, 2024). Moreover, companies exhibiting a robust ESG profile frequently demonstrate greater competitiveness and yield higher profits, which in turn provides a greater dividend return to shareholders. This scenario can result in an enhanced stock valuation (Mohanasundaram & Kasilingam, 2024). Additionally, companies with strong ESG practices maintain superior risk management and compliance standards, making them less vulnerable to significant issues such as fraud or corruption, which could diminish the company’s value (Lo et al.,2024; Singh and Jain,2022). Consequently, this results in reduced stock-specific risk and diminished downside tail risk. The systematic transmission channel represents an additional method through which ESG information can influence a company's market valuation (Singh and Jain,2022). In this context, the information concerns not only the company itself but also the overall market, with the associated risks being unavoidable and non-diversifiable. Companies with robust ESG practices are expected to experience lower discount rates and reduced capital costs compared to those with inferior ESG performance. This phenomenon can result in elevated stock valuations within the framework of discounted cash flow analysis (Lo et al.,2024). Furthermore, well-performing ESG companies are projected to exhibit reduced sensitivity to market risk (beta), owing to their superior business management and diminished susceptibility to systematic market disturbances, such as fluctuations in commodity prices (Liu et al.,2023). Empirical research also indicates that companies with strong ESG practices are likely to experience less exposure to both idiosyncratic and systematic risks than their poorly performing counterparts. This implies that ESG information could serve as an effective tool for risk management, complementing traditional financial risk management strategies (Liu et al.,2023). Nevertheless, among investors, there exists a prevalent belief that investing in ESG necessitates a certain compromise on financial returns. The increasing focus in this domain has resulted in a notable surge in research articles investigating the correlation between the ESG attributes of companies and their financial performance and risk profiles (Liu

et al.,2023; Singh and Jain,2022). Early efforts focused on socially responsible investing (SRI), but the market has expanded to include more comprehensive ESG integration. Green bonds, ESG funds, and impact investing have become core elements of the financial ecosystem, with a growing emphasis on long-term value creation and risk mitigation (Kumar et al.,2023; Kumar et al.,2022).

- *Green Bonds*: These are debt instruments issued to finance projects with positive environmental impacts, such as renewable energy infrastructure or energy-efficient buildings. The global green bond market has grown exponentially, with issuers ranging from governments to corporations.

- *ESG Funds*: These funds focus on investments in companies that meet certain ESG criteria, and their growth reflects the increasing interest of institutional investors in sustainable business practices.

- *Impact Investing*: This focuses on generating measurable positive social or environmental impacts alongside financial returns, which is particularly relevant for corporate conduct in industries such as healthcare, renewable energy, and education.

Companies are under increasing pressure to disclose their ESG performance, respond to shareholder activism, and align their strategies with sustainability goals.

- *ESG Reporting and Transparency*: Investors and regulators are demanding greater transparency on ESG factors. This has led to the development of various frameworks, such as the Global Reporting Initiative (GRI) and the Task Force on Climate-related Financial Disclosures (TCFD), to standardize ESG reporting.

- *Shareholder Activism*: Shareholders are increasingly using their power to influence corporate behavior, pushing for better ESG performance. Activists are targeting companies that fail to meet sustainability standards, driving changes in boardroom decisions.

- *Board Composition and Decision-Making*: Sustainable finance markets encourage companies to appoint directors with expertise in ESG issues, fostering better decision-making in the areas of risk management, strategy, and corporate social responsibility (CSR).

Before formulating a sustainability strategy, a thorough assessment of the organization's approach to corporate sustainability should be conducted to define the company's sustainability profile (Song et al.,2018). Once a company's sustainability profile has been established, managers and CEOs can develop a persuasive case for change by analyzing stakeholders and the industry, while evaluating potential risks and opportunities (Krechovská & Procházková, 2014). After clarifying the purpose, they must define their sustainability ambition by examining both the "What" and "How" of the existing corporate sustainability approach and profile (Krechovská & Procházková, 2014; Baumgartner & Ebner, 2010). To effectively translate the sustainability vision into value, managers should follow a structured path that includes these steps:

1. Identify a framework to organize their strategy.
2. Develop strategic pillars and outline initiatives under each pillar.
3. Conduct a materiality assessment and create a materiality matrix to determine the key focus areas for their company.
4. Identify how to successfully integrate sustainability within the organization.

Willard (2012) argues that for sustainability to generate value, sustainability investments must align with the company's core strategy. Porter and Kramer (2007) argued that many companies for compiling uncoordinated initiatives to highlight their social sensitivity. Instead, sustainability should be genuinely integrated into the core corporate strategy, with the company's context and capabilities informing sustainability priorities (Orsato 2009). Therefore, before defining a proposed sustainability strategy, it is essential to identify the organization's core corporate strategy and closely align sustainability practices with those strategic decisions. To evaluate the sustainability of the organization, it is imperative to conduct a comprehensive review and critical examination of the company's existing methods regarding corporate sustainability. Formentini and Taticchi (2015) categorize three distinct sustainability profiles, with a triple-bottom-line approach and sustainable supply chain management as the primary distinguishing features:

1. “*Sustainability Traditionalist*”: This profile is characterized by the implementation of conventional business practices that do not necessarily incorporate specific triple bottom line (TBL) or sustainable supply chain management (SSCM) initiatives, although they may exhibit some elements of sustainability. Management is primarily focused on financial performance, lacking a defined sustainability strategy or agenda. Initiatives are inadequately structured and misaligned with the corporate strategy, concentrating internally within the organization.
2. “*Sustainability Practitioner*”: This profile reflects a limited approach to corporate sustainability, exhibiting focused attention on one or two aspects of the “triple bottom line” (TBL). The organization has developed a sustainability strategy, agenda, and set of initiatives. However, the sustainability strategy is disjointed (in terms of CSR) or only partially integrated with the corporate strategy. The initiatives are primarily at the corporate level, with occasional outreach to the supply/value chain level (e.g., customers, suppliers, partners).
3. “*Sustainability Leader*”: This profile is marked by the existence of a well-defined strategy and program that are thoroughly embedded in the corporate strategy. The initiatives are systematically structured and balanced from a “triple bottom line” perspective, extending throughout the supply and value chains. To ascertain an organization's sustainability profile, it is critical to conduct an extensive review and analysis of the organization's current methodology utilizing the corporate sustainability model. As Epstein and Buhovac (2010) assert in their sustainability model, leadership participation is essential for achieving success. The function of leadership is pivotal in the corporate sustainability model, both as an input and throughout the processes. Consequently, management must demonstrate dedication to

sustainability and recognize that it can generate increased financial value for the organization. The model outlines the elements that affect corporate sustainability performance, the measures leaders can implement to enhance this performance, and the effects of these measures on the environmental, social, economic, and financial aspects of the organization. This framework should be employed to assess the organization's inputs, processes, outputs, and outcomes regarding sustainability, offering a holistic perspective on the organization's commitment to sustainability.

Conclusive remarks

Sustainable finance is reshaping corporate behavior by integrating ESG factors into investment decisions. This shift has led to initiatives like sustainable investments, corporate social responsibility, and enhanced risk management. Integration with the circular economy creates opportunities for economic advancement, social well-being, and environmental stewardship. Is the correlation between corporation proneness toward ESG practices and the corporation's good financial operability causal relationship? Which is the cause and which is the effect? Our research findings have shown that stronger financial positions precede engagement in ESG practices. This means that an external stimulus should occur to increase the engagement in ESG practices among low-performing corporates. In light of counterexamples, a good financial position is perceived as a sufficient (not necessary) precondition to better engagement in ESG practices. External stimulus is needed.

Empirical research also suggests that strong ESG practices contribute to long-term value creation and sustainable returns on investments. The research underscores the transformative role of sustainable finance in shaping corporate conduct across various industries and regions. As sustainability concerns become increasingly paramount, financial markets are evolving to incorporate environmental, social, and governance (ESG) considerations into their investment frameworks. This integration not only influences corporate strategies and governance structures but also enhances risk management practices and overall corporate performance.

The qualitative findings indicate that companies adopting sustainable finance principles tend to experience improved financial outcomes, driven by a growing recognition of the value of ESG factors in investment decision-making. Sustainable finance encourages firms to embrace corporate social responsibility, engage in transparent ESG reporting, and actively manage risks associated with sustainability challenges. As a result, organizations are not only better positioned to mitigate potential liabilities but can also enhance their reputations, attract responsible investors, and foster consumer loyalty. Moreover, the interconnectedness of sustainable finance and the circular economy presents significant opportunities for innovation and resilience. By aligning financial strategies with sustainable practices, companies can create a synergistic relationship that promotes long-term value creation while addressing pressing global challenges such as climate change and social inequality.

As we move forward, it is imperative for companies to fully integrate sustainability into their core strategies, ensuring that their practices align with evolving market expectations and

regulatory frameworks. The ongoing developments in sustainable finance, coupled with increasing shareholder activism and regulatory scrutiny, will continue to drive corporate behavior towards more sustainable and responsible practices. The trajectory of sustainable finance is poised to reshape the future of corporate conduct, paving the way for a more sustainable and equitable global economy.

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