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INTEGRATING ESG CRITERIA IN SUSTAINABLE WEALTH MANAGEMENT FOR LONG-TERM FINANCIAL GROWTH

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Abstract

This research paper explores the integration of Environmental, Social and Governance often referred to as ESG criteria in Wealth management and its impact on long term financial growth. This research examines ESG investing motivator, awareness, challenges in ESG investing and potential of growth. The research was conducted with the help of surveys from wealth managers, ESG investors and financial advisor to collect and analyze data. Finding indicates the interest in ESG investment and potential of growth in the future along with some other challenges. The research suggests awareness, education and policy enhancement to improve ESG integration in wealth management.

Introduction

In the recent years there has been a significant global emphasis on sustainability. This has reshaped the investment strategies leading to a rise in ESG investing. ESG investing is related to investing based on environment, social and governance consideration. Investors are realizing that financial performance is not solely based on traditional metrics like revenue and profitability, but it is also based on factors related to environmental responsibility, social consideration and ethical corporate governance. This recognition has resulted in the boom of ESG investing as both individual as well as institutional investors are starting to align their financial goals with sustainability objectives. This research helps in understanding ESG investing, the factors that influence investors and wealth managers to consider ESG investing, ESG investing challenges and areas of improvement along with the future outlook. The study explores the growth of ESG investing and its impact on long term financial growth along with investor perception and financial performance of ESG. This research also explores how ESG investing contributes to long term wealth management, as sustainability becomes the pillar of corporate strategy, ESG investments are expected to deliver competitive returns while addressing global challenges.

By analyzing wealth managers, financial advisors and ESG investors perceptions, this research aims to provide insights as to how ESG investing has transformed wealth management and highlighting if sustainable investing continues to be the feasible financial strategy for long term success.

Research Statement

This research investigates the role of ESG investing in wealth management and the long-term effects on financial growth. It aims to evaluate investor and financial professionals' perspective. The findings contribute to the development of strategic solutions for improving ESG investment opportunities.

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Research Objectives

- To examine the role of ESG investing in long-term financial growth
- To analyze the impact of ESG integration in sustainable wealth management
- To evaluate the challenges with ESG integration
- To analyze growth potential of ESG investing in the future

Hypothesis

H_0 (Null Hypothesis): Integration of ESG criteria in sustainable wealth management has no significant impact on long-term financial growth.

H_1 (Alternative Hypothesis): Integration of ESG criteria in sustainable wealth management has significant impact on long-term financial growth.

Research Methodology

1. Research Design

In this research mixed-method approach was used where both, quantitative and qualitative techniques helped to identify the effectiveness of ESG integration in sustainable wealth management for long term financial growth.

2. Sample size and sampling method

Sample size: 5-7 wealth managers, financial advisors and ESG investors.

Sampling Method: Stratified random sampling to ensure representation of various investment backgrounds.

3. Data collection method

Primary data: Structured surveys distributed online to investors, wealth managers and financial advisor.

Secondary data: Reviewing and analyzing case studies and articles.

Literature Review

(Kotsantonis, Pinney, & Serafeim, 2016)

In this research the authors address several misconceptions related to ESG like ESG programs reduce returns on capital and long run shareholder value. This research emphasis that companies that prioritize sustainability attract long term investors along with a competitive advantage in the market.

(Gupta, Shukla, Pandey, Wadhwankar, & Sharma, 2024)

This research highlights the recent studies that suggest that companies with strong ESG practices often outperform their competitors by increased operational efficiency, reduced risks and long-term investors. It also highlights that despite the increased adoption challenges to ESG integration remain, as ESG continues to evolve, standardization and transparency will be critical in shaping its role in sustainable economic growth.

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(Bell, Matthew, 2021)

This article highlights the post pandemic ESG importance and boom, investors have increasingly believed in companies that perform well on ESG as less risky, safe, better positioned and having a competitive advantage over the others. This has made investors lean more towards the companies that perform well on ESG, this has also made institutional investors to align their portfolios more towards ESG performance. Companies that are more ESG focused are more likely to be seen as attractive investment prospects by investors.

(Daramola, Olanrewaju, & Babayeju, 2024)

This article highlights the numerous benefits to organizations on ESG integration including enhanced organizational financial performance, improved operational efficiency, reputation and access to capital. ESG integration is increasingly becoming important in shaping the business models, investment decisions and stakeholder relationship. As ESG challenges escalate the companies that prioritize sustainability will be better positioned in the future and can drive a positive change and create shared value for their stakeholders.

Case Study

JSW Steel

JSW steel group's sustainability initiatives have widened over the years. They are now integrating sustainability in various parts of their operations like steel, paints, cement and construction.

JSW Steel: This is a SEED (Sustainable Energy Environment and Decarbonization) program that aims to cut the organization's CO_2 emissions by 18 million tons per year by the year 2030.

JSW Cement: Traditionally Steel companies dump slag in landfills which is a hazard to the environment, but JSW steel is using the slag to make green cement which results in lowered carbon footprint. (Boston Consulting Group)

JSW Construction: JSW group has taken various initiatives and measures to incorporate eco-friendly materials and energy efficient designs that are better for the environment.

JSW Paints: They emphasis on product sustainability where they focus on development of sustainable products that are safe for consumers, they address environmental impact and ensure resource conservation.

The measures taken by JSW Steel group has not only resulted in environment betterment but has also ensured the companies financial growth. Integrating ESG and sustainability criteria has helped JSW steel group garner a better reputation and has also ensured a competitive advantage with environment conscious investors.

These sustainable measures have also resulted in improved efficiency, reduced costs and overall increased financial capacity.

In the year 2023-2024, JSW Steel had achieved significant advancements in operational excellence and capacity expansion. This resulted in them strengthening their position as a sustainable organization. These improvements resulted in increased market share and revenue growth. (JSW Steel)

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This case study helps in understanding the impact of ESG integration in the overall financial growth.

Data analysis and Interpretation

- **ESG integration motivator:**

66.7% integrate ESG in wealth management for ethical consideration

33.3% integrate it for Long-term financial returns

- **Key challenge in ESG investing:**

100% of the respondents agree that there are limited ESG investment products

- **ESG performance and future outlook:**

66.7% believe ESG investing leads to better long-term financial returns.

100% believe Renewable energy sector offers high investment potential

50% believe ESG investment would face strong growth in future

Hypothesis testing (using Jamovi)

H_0 (Null Hypothesis): Integration of ESG criteria in sustainable wealth management has no significant impact on long-term financial growth.

H_1 (Alternative Hypothesis): Integration of ESG criteria in sustainable wealth management has significant impact on long-term financial growth.

Multinomial Logistic Regression

Model Fit Measures

Model	Deviance	AIC	R^2_{McF}
1	5.55	21.5	0.543

Note. Models estimated using sample size of N=6

Based on the results we analyze the impact of ESG integration in sustainable wealth management for long term financial growth.

The findings indicate the following:

- McFadden's $R^2 = 0.543$ suggests that 54.3% of the variation in ESG based financial growth is explained by the model.
- This indicates a moderate to strong model fit, suggesting that ESG integration play a meaningful role in financial performance.
- The moderate McFadden's R^2 and low deviance support **Rejecting** the (Null Hypothesis) H_0, Integration of ESG criteria in sustainable wealth management has no significant impact on long-term financial growth.

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- The moderate McFadden's R^2 and low deviance support **Accepting** the (Alternative Hypothesis) H_1, Integration of ESG criteria in sustainable wealth management has significant impact on long-term financial growth.

Findings

- Lack of ESG investment options in the market.
- Renewable energy is considered to be one of the highest investment potentials for ESG.
- Investors who invest in ESG are more likely to experience improved returns compared to the traditional investment strategies.
- Companies that are sustainable or follow ESG practices attract environmentally conscious investors, are considered to have competitive edge and provide improved stakeholder value.
- The results suggest that while ESG is a significant factor, investors should also consider other economic factors before investing.

Suggestions

- Promotion of sustainable investments through tax benefits and government policies.
- Implementing stricter rules for auditing and reporting guidelines to avoid greenwashing.
- Introducing more green bonds and encouraging businesses across industries to adopt ESG principles for wider investment option.
- Companies must establish ESG focused committees to oversee sustainability goals and ensure alignment with financial performance.

Conclusion

This research highlights the growing relevance of ESG investing in sustainable wealth management for long term financial growth. It highlights the importance of ESG integration in companies resulting in increased market share and revenue growth as well as highlights the benefit for shareholder. This research also addresses the challenges in ESG investing which can be improved by increasing awareness, introducing more ESG investment options and transparency. ESG investing is benefitting all, companies, investors and the environment.

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