

Literature Reviews on the Challenges and Opportunities of ESG Integration in Investment Decisions

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Abstract

The integration of Environmental, Social, and Governance (ESG) in investment decisions is becoming an important subject in the world of modern finance. This research explores the challenges and opportunities associated with the integration of ESG in investment decision-making. With a qualitative approach using literature review methods, this research explores various aspects that influence sustainable investment decision-making. The results of the analysis show that although there are great opportunities to improve long-term investment performance through ESG integration, there are still several challenges that need to be overcome. These challenges include a lack of transparency, reliability, consistency, and materiality in reporting ESG data, as well as difficulties in applying accounting controls to ESG data, which is often qualitative and prospective.

Key words: Challenges, Opportunities, ESG Integration, Investment Decisions.

INTRODUCTION

Environmental, social, and governance issues have increasingly become a major concern for many companies recently. The negative impacts resulting from company activities on the environment and surrounding communities have increased stakeholder awareness regarding the importance of environmental preservation and implementing social responsibility. Global sustainability priorities, efforts to mitigate changing climate patterns, and the transition to a low-carbon economy have now become constant aspects for investors. Opportunities and challenges in this context require a thorough assessment of financial and sustainability risks in investment portfolios. Although financial risks are integrated into the investment process, effective risk management must also take into account environmental, social, and governance risks (Hübel & Scholz, 2020).

Investment is seen as a sacrifice in the present to obtain results in the future (Tandelilin, 2010). This perspective integrates risk and returns as the main elements of

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investment. The risk shows how much investors are willing to bear to achieve the desired return. However, focusing on returns alone can result in neglect of company sustainability, environmental impacts, and social factors. Environmental, Social, and Governance (ESG) factors have received increasing attention in the investment world in recent years. Investors and financial institutions are increasingly realizing the importance of incorporating these considerations into the decision-making process (Cakranegara & Sidjaga, 2021).

Awareness of environmental, social, and governance issues is also driven by the emergence of investments that integrate sustainability aspects better known as sustainable investing. According to Stobierski (2021) in Sarnisa et al., (2022) Sustainable Investing is an investment that takes into account Environmental, Social, and Governance (ESG) aspects before deciding to allocate funds to a company or business. ESG investing is an asset management strategy that emphasizes the importance of environmental, social, and governance (ESG) factors in investment decisions to achieve long-term returns. ESG developments are driven by changes in social values and pressure from investors and beneficiaries to pay attention to these aspects. Environmental, Social, Governance (ESG) is a standard applied by companies in investment practices, which integrates and implements company policies to be in line with environmental, social, and governance concepts (Noviarianti, 2021).

Investors apply various approaches to obtain accurate information in making investment decisions. Traditionally, investment decisions depend largely on financial performance alone. However, investors now have more diverse goals and include more than just financial gain (Sultana et al., 2018).

Sustainable and responsible investing (SRI) utilizes ESG information to integrate environmental, social, and governance factors in research, analysis, and selection of securities in investment portfolios. This approach aims to increase better long-term financial returns. When evaluating investment options, investors assess whether to incorporate environmental values and concerns by taking risk and profitability into account in their decisions (Friede et al., 2015a). Currently, the concept of sustainability not only plays a central role in everyday life but is also an important factor in determining which companies are worth investing in, considering that investment is related to the impact produced (Aich et al., 2021). Investments that focus on ESG are increasingly in demand and attract the attention of many investors, especially from the millennial generation (Elena E. et al., 2010).

Making investment decisions involves continuous efforts to avoid levels of uncertainty or risk, and comprehensive information collection and careful analysis can facilitate this process (Danarti et al., 2020). Investors manage investment risks by

considering ESG reports and assessments so that companies can be more transparent in analyzing risks and generate long-term financial profits (Sciarelli et al., 2021). An in-depth analysis of financial information is used to assess investment risks and identify potentially profitable investments (Nur Ozkan-Gunay & Ozkan, 2007). Companies that implement social responsibility can attract consumer interest and influence company policies and market regulations. Today, investors consider not only profitability but also corporate ethics, using non-financial parameters to identify profitable investment opportunities.

Incorporating ESG factors in investment decisions has a major impact on the sustainability of stock markets, the global economy, and ecological balance. Irresponsible companies can face huge costs such as accident cleanup, and loss of consumer trust. This can harm stakeholders (Hannah Heekyung Jun 2013). Meanwhile, companies that practice ESG principles can increase customer loyalty, reputation, access to capital, cost savings, and long-term productivity (Ferrero-Ferrero et al., 2016). ESG issues provide important insights into financial performance and future evaluation (Griswold, 2013).

Cakranegara (2021) to maintain and increase company value, every value driver needs to be strengthened against ESG risks. This research shows that implementing social values can improve a company's business operations, which in turn has a positive influence on various aspects. By overcoming ESG integration challenges and taking advantage of existing opportunities, companies can improve the competitiveness and sustainability of their operations in the long term.

In Indonesia, attention to ESG values in investment is increasing with the creation of the SRI Kehati index (Socially Responsible Investment – Biodiversity). This index, created with the Kehati Foundation, includes companies that meet environmental and socially responsible governance criteria. The SRI Kehati Index has been proven to provide high returns, showing that considering ESG factors does not reduce company profits, but rather increases company value (Zulkafli et al., 2017).

of Environmental, Social, and factors Governance (ESG) in investment decisions is increasingly important among global investors. However, this process is not free from obstacles. Recent studies identify several key challenges in ESG integration, such as a lack of standardized and reliable data, regulatory ambiguity, and concerns about negative impacts on investment outcomes. A Morningstar survey showed that approximately 30% of asset owners cited inconsistent data and unclear regulations as major obstacles to implementing their ESG investment strategies (Segal, n.d.).

Park & Oh (2022) stated that to determine the factors that influence the integration of ESG information by individual investors in investment decisions, highlighting the

importance of using ESG information, identifying integration challenges, and encouraging improved corporate ESG management. The results of this study reveal that the main challenges are the lack of consistent standards and adequate access to ESG data, while opportunities include increased corporate transparency and the potential for long-term financial benefits. By addressing these challenges, the integration of ESG in investment decisions can strengthen stock market sustainability and increase corporate competitiveness.

This is what happened based important assessment of challenges and opportunities for deep ESG integration decision investment because matter This gives a strong foundation for a sustainable investment strategy. Steps To overcome obstacles and exploit opportunities the possible management is more portfolio sustainable and delivers more guide Good in investment strategy. With more understanding Good about the impact on performance period long, investors can make more decisions and responsible answers, consider aspects of environmental, social, and governance, as well as increase market confidence, and practice more business sustainability in a way whole.

METHODOLOGY

Study This uses a approach qualitative with method study literature. The literature review covers ingredients reading and discussion related to something topic or findings research, which works as base analysis and interpretation of data in context study (Sugiyono, 2013). Through study literature, researchers can understand the landscape of existing research, identify gap research, and discover patterns or relevant trends For studies more carry on (Creswell, 2013). Additionally, method This makes it possible for the researcher To gather information from various trusted sources, and strengthen the base theoretical research conducted (Hart, 2018).

A literature review covers a review of relevant literature with a topic certain, which is found in articles, books scientific, and journals. In research Here, data is collected from journals national and international. Research results in the form of descriptive data that is analyzed in a way descriptive For give easy explanation. Approach This possible researcher compiles a clear and comprehensive picture of the topic being researched.

RESEARCH AND RESULTS

Environmental, social, and governance (ESG) factors become considerations in decision investment in the sector of finance. The goal is To push the development sustainable economy by reducing pollution, lowering emission carbon, and utilizing energy renewable,

to speed up the transition to economy-neutral carbon. In addition, deep ESG integration investment increases transparency and accountability of investors towards their business support, especially those focused on financial sustainability or consider ESG deeply taking decision investment.

Integration of ESG (Environmental, Social, and Governance) information is the trend latest in making decision investments. Innovation is defined as the development and/ or adoption of a new idea or behavior. Therefore the usage of ESG information in decision investment can be considered something innovation. Effective ESG integration in making decision investments needs an approach new beyond the management risk traditional. Thus, part following will serve as perspective adoption innovation For exploring various factors affecting the integration of ESG information by investors.

Information about How a company manages ESG issues is very important For predicting the continuity period long something company. Investors use various strategies based on ESG information and search indicators to demonstrate performance continuity company in the future. ESG investing is driven by prospects performance positive (Plagge & Grim, 2020). Therefore , information about Good ESG performance is critical and impactful to decision investment. Studies show that companies with good ESG practices own profit on more investment, and a composed portfolio from securities with high ESG ratings tends to perform more Good compared to those with ranking low.

At a time when price and temperature Keep going increase as well as source Power natural the more thinning, important For move together going to continuity. Continuity becomes crucial for investment can develop rapidly, make it and invest each other dependent and needing careful attention (Peylo & Schaltegger, 2014). Continuity now introduces many new parameters that need to be considered in investment. Studies show that factor environmental, social, and governance (ESG) influences greatly decision investment. ESG scores deliver information important about company fundamentals and influence investor choice (Pedersen et al., 2021). Due to the demand of clients, many investors now use ESG information to filter products new and simplify the investment process. In the ESG context, governance aspects are closely related to quality Company management (van Duuren et al., 2016).

Integration of ESG (Environmental, Social, and Governance) factors in decision investment has become more important over several years. A number study empirical has identified various factors affecting How ESG practices impact results investment. Deep understanding of factors This helps investors' and managers' portfolios make more

decisions informed and sustainable. Following are some factors main thing found in the study The latest influences of ESG impact on investment.

1. **Environmental Performance**

Environmental factors include how companies manage issues such as climate change, pollution, and use of natural resources. Research shows that companies with good environmental practices tend to have better financial performance because they can reduce operational costs and increase efficiency (Clark et al., 2015).

2. **Social Performance**

Social factors involve a company's relationships with stakeholders, including employees, customers, and local communities. Studies find that companies that pay attention to social factors, such as good working conditions and contributions to the community, have better reputations and higher customer loyalty, which in turn improves financial performance (Dhaliwal et al., 2011).

3. **Corporate governance**

Corporate governance includes transparency, shareholder rights, and management practices. Research shows that companies with good governance tend to have lower risks and more stable investment performance because they are more likely to avoid scandals and poor management (Gompers et al., 2003).

4. **Company financial performance**

The financial performance good company is often correlated with a high ESG score. Studies show that companies with good ESG practices tend to own more profitability and more risk (Friede et al., 2015).

5. **Risk management**

ESG can help companies identify and manage risks that may not be visible in traditional financial analysis. Companies that have good ESG practices are often better prepared to deal with environmental and social risks (Eccles et al., 2014).

6. **Investor Demand**

Demand from investors for ESG information also plays an important role. Many investors are now looking for investments that are not only financially profitable but also socially and environmentally responsible. This encourages companies to improve their ESG practices (Amel-Zadeh & Serafeim, 2018).

7. **Regulations and Policies**

Government regulations and policies that support ESG practices also influence the impact of ESG on investments. Companies operating in highly regulated environments tend to have better ESG practices, which ultimately increases their

investment attractiveness (Flammer, 2013). Governments in various countries are increasingly adopting regulations that encourage ESG practices. These policies can influence companies to improve their ESG scores to remain competitive and comply with regulations (Khan et al., 2016).

The ability To identify influencing elements market value of a company and evaluate accuracy evaluation is very important for successful investment. General analyst expert in the use of metric finance To identify factors pusher mark company and deliver analysis to accounting data that is often complex. However, in many years Lastly, non-financial considerations like environmental, social, and governance (ESG) have become the more important in determining mark company. Factors like performance good finances, ability to manage risk, investor demand, and policy government everything influences how ESG impacts the valuation company. By considering these factors, investors can make more decisions informative and sustainable, improving opportunity success investment.

Success deep ESG integration taking decision investment needs an approach new beyond the management risk traditional. Perspective adoption innovation can used To explore various factors affecting the application of ESG information by investors. Study literature shows that ESG integration offers various significant opportunities for investors, including enhancement performance period length and reduction more risk . For example, Khan, Serafeim, and Yoon (2020) show that companies that focus on material ESG-related issues tend to show performance financially . In addition, Eccles and Serafeim (2019) identified that companies with good ESG practices are more likely to attract seeking institutional investors investment sustainable. Cakranegara & Sidanggaran (2021) stated that if a company in an industry ignores ESG values, the company will lose its competitiveness. On the other hand, if an industry does not pay attention to ESG factors, that industry will lag behind other industries that pay attention to ESG factors.

Apart from performance finance, ESG integration is also opening up opportunities For increasing the reputation company and strengthening the connection with holder interest. This matter is supported by research that shows that companies with high ESG scores tend to have stronger loyalty to more customers and a higher reputation in the eyes of the public (Friede et al., 2015). Next, standard ESG reporting is good and more uniform and can help overcome challenges of transparency and consistency, which in turn increases investor confidence in the data presented (Giese et al., 2019). Thus, understanding and utilizing opportunity is very important for investors who wish to integrate ESG in investment strategies in an way effective.

ESG integration offers some benefit potential, including enhancement performance finance period length and management more risk Good. However, many frameworks designed work To help the company in reporting This faces challenges and structural obstacles to efficiency (Giese et al., 2019). Obstacle This reduces the ability company To convey accurate, reliable, and consistent non-financial information to investors, holders of shares, and the public.

Although there is various framework work and improvement data availability, p This No also immediately increases the confidence of investors, fund managers, or assets. Instead, it appears worries related to quality, validity, comparability, and integrity from information sustainability and non-financial data reported company. This becomes attention for investors because a lot of data is available on the financial markets Can considered as a "noise background behind" that gives a clear explanation about which company owns its performance more sustainable Good or truly committed to a friendly "effort environment". In fact with framework Work existing reporting, doubt still There is (Giese et al., 2019).

Cruz & Matos (2023) in their study stated that most existing frameworks experience difficulties and challenges in conveying significant sustainability information to investors. These challenges arise from a lack of transparency, reliability, consistency, and materiality, as well as a lack of specific focus on the "S" dimension in ESG.

In terms of This covers several challenges special. First, diversity framework ESG work often causes conflict in sustainability data reporting, creating the phenomenon of "fatigue reporting" because the company must report various types of information without guiding clear standards. Lack of consistency in the reported data challenges significant, with some companies Not reporting indicators and metrics performance in a way completely, or failing to differentiate between lost data and poor performance (Eccles et al., 2019). Second, the lack of transparency in method data collection and challenges in data standardization create difficulty in ensuring that classification companies based on methodology and benchmarks common measurements. Excessive focus on static metrics without analysis development or setback can make the picture complete to investors. Additionally, aspects of social in ESG are often overlooked, though important For evaluating the contribution company to objective society and how they reach objective social besides from environment and governance (Saul et al, 2022).

Apart from that, there are challenges to the default that make control accountancy against Environmental, Social, and Governance (ESG) data difficult to hold. ESG data often focuses on values that are not measurable and possessive dimensions strong qualitative, so application procedure control accountancy becomes complicated. Additionally, ESG data

tends to have a natural perspective, which reduces the effectiveness of data reconciliation as a tool of efficient control (Cort & Esty, 2020).

CONCLUSION AND RECOMMENDATIONS

Based on the study, concluded that the integration of Environmental, Social, and Governance (ESG) in making decision investments needs to be approached holistically beyond the framework Work traditional. Although there is an opportunity big For increase sustainability and performance investment period long through ESG integration, There are still several necessary challenges to overcome. Challenge the covers lack of transparency, reliability, consistency, and materiality in ESG data reporting, as well as difficulty in applying control accountancy to frequent ESG data nature qualitative and prospective.

The study recommendation is For more deepen influencing factors of ESG integration by investors, including awareness will risks environmental and social, understanding of policy government related to ESG, and change in related investor preferences with investment sustainability. Besides, it is necessary done study more to develop a framework to Work more control effectively in managing complex ESG data. With more understanding Good about the challenges and opportunities for the integration of ESG, investors and companies can take steps strategic For repair management risk, increase performance investment, and encourage the practice of more business sustainability.

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