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THE ROLE OF FINANCIAL MANAGEMENT IN FOSTERING THE DEVELOPMENT OF SUSTAINABLE BUSINESS PRACTICES

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Abstract

The present research study has been conducted by the researcher to better comprehend the role of financial management in sustainability of the environment. The entire focus of the study is centered around the need of sustainability reports' disclosure by the companies, taking financial decisions based on corporate sustainability in capital budgeting and related elements, measurement of the sustainability-related risk, and its mitigation. The study examines the relationship between financial growth and sustainability and breaks down the Indian financial model system into their component parts to analyse how well the concepts apply in real life. Using various non-financial & macroeconomic elements, this study creates a prediction model that provides direction for distress diagnosis and appraisal in a variety of firms for different interest parties.

Keywords : Financial Management, Sustainable Practices, Financial Decisions, Growth, Model System

Introduction

Financial management is among the most important financial topics. The basis of this research study is building a workable framework for financial management of companies taking into consideration the value of sustainability and the viability of obtaining concurrent financial and sustainable achievements. The study delves deeper into the topic of sustainability research and then analyses case studies to show how sustainability is used in the financial sector's changing environment.

Literature Review

Corporate sustainability reporting and disclosure, according to Habek and Wolniak (2015), are based on the notions of evaluating a company's performance both today and in the future. It has become more and more important to create techniques of evaluating corporate performance that are better, more adaptable, and environmentally responsible. The creation of a technique for evaluating how effectively a company performs financially, as well as ethically or environmentally, has been the ideal scenario. Corporate sustainability reporting disclosures are mainly reliant on the valid and voluntary approaches. Due to the fact that the majority of corporate businesses worldwide are not obligated to make a corporate sustainable disclosure, some corporations choose to implement sustainability reporting (Gnanaweea & Kunori, 2018)

The legitimacy theory asserts that companies embrace corporate sustainability reporting because they wish to appear legitimate or credible to stakeholders and shareholders. Companies are being pressured more and more to switch from a financial reporting model to one that integrates financial and environmental reporting. This tactic has been researched and tried, and it has been found to benefit the company since it increases shareholder and stakeholder value.

The legitimacy hypothesis has been linked to social values, volunteerism, legal compliance, environmental advocacy, environmental audits, and related conservation measures, to name a few values (Patten, 1992).

The following criteria may be used to support corporate sustainability disclosures:

- Initiatives for environmental protection and the fields they concern.
- Measures made to reduce carbon emissions.
- The usage of renewable energy.
- More environmental accounting or reporting adoption and conformity.
- Funding for environmental research activities.

Financial management produces important financial decisions as its primary output. Successful financial management typically shows up as effective and efficient financial outcomes. Financial management choices can be connected to the key determinants of sustainable results. Financial management is founded on ideas that aim to maximise stakeholder and shareholder returns through managerial decisions that are made strategically. When making capital budgeting decisions, sustainability factors can be taken into account by choosing and approving projects that have environmental components or activities as a means of attaining sustainability in light of the sustainability targets established. A project that aims to switch a company's primary energy sources from traditional, emissive energy sources like coal power plants to renewable energy sources is an excellent example.

Utilizing sun, wind, or even hydroelectric power as a source of energy is referred to as using renewable energy (tidal or ocean power). The decision matrix procedure is used in the capital budgeting process to choose the best projects with the most logical and financially sound investment returns. Financial management's capital budgeting method makes it possible to compare costs and returns, allowing for the selection of the project with the biggest potential for success (Yilmaz & Flouris,2010)

- More specifically, when companies adopt sustainable practises, they ensure that there will be improved value creation through a more protected environment in addition to the traditional financial success that is stressed by many company stakeholders.
- Technically, increased environmental awareness aids people in maintaining excellent health and a comfortable working environment, hence the term "sustainability" (Pablo et al., 2019). Over time, people have become more knowledgeable about and familiar with sustainable concepts thanks to published studies. Stakeholders and shareholders are increasingly beginning to value sustainable business practices across a range of industries.

Conceptual Construction

A. Key Financial Decisions Connected to Sustainability

The main result of financial management is significant financial decisions. Effective and efficient financial results are a hallmark of successful financial management.

The main factors that affect the sustainability of results can be linked to financial management decisions. The principles of financial management are designed to maximize stakeholder and shareholder returns through strategically determined managerial decisions. By selecting and approving projects that include environmental elements or activities as a method of achieving sustainability in light of the sustainability targets specified, sustainability issues can be taken into account when making capital budgeting decisions.

An ideal example is a project that seeks to replace a company's main energy sources, which often come from traditional, emissive energy sources like coal power plants, with renewable energy sources.

Renewable energy is any form of energy that is produced utilising natural resources, such as the sun, wind, or even hydroelectricity (tidal or ocean power). In the capital budgeting process, the decision matrix approach is used to select the best projects with the most rational and financially sound investment returns. Capital budgeting allows for the comparison of costs and returns, allowing for the selection of the project with the greatest chance of success (Yilmaz & Flouris, 2010)

According to Brewer, Garrison, and Noreen, the internal rate of return (IRR) and the net present value (NPV), two examples of better financial indices, are utilised to describe the capital planning process. The total returns are subtracted from the net present value to get at the net present value, and the higher and more favourable the net present value, the more likely it is that the project will be selected (Arslan & Zama, 2015).

The net present value returns are discounted and summed as functions of expected future returns discounted to present value terms using conventional standard discounting factors to enable a more realistic evaluation of anticipated outcomes.

The internal rate of return follows the same rules as the net present value method of calculation, with the exception of the usage of net cash flows. The initial capital costs are subtracted from the projected undiscounted cash flows by the internal rate of return, which then determines the final value. The internal rate of return is suggestive of project selection if the calculated number is higher than the projected rate of return. The net present value model outperforms the internal rate of return in terms of project selection and determination. In order to connect the financial methodology for project selection with sustainability considerations, an additional project evaluation measure can be introduced to the financial evaluation to show environmental conservation concurrently with the financial feasibility of projects.

The return rate that a company must achieve is the cost of capital. Therefore, corporate organisations can choose a project under capital budgeting financial decisions that has the necessary sustainability approaches in line with the current needs from company shareholders and stakeholders. As a result, choosing an intended project can be based on two factors: the project with the highest return and the project with an execution plan that incorporates environmental sustainability principles. As a result, placing sustainability goals or aspects ahead of financial return objectives helps with the financial decision-making process.

Corporate social responsibility and financial performance of businesses have been related in prior study on sustainability reporting (Agarwal, Mathur & Saxena, 2015). The primary goal of the study was to ascertain the relationship between corporate social responsibility, one of the independent variables, and financial performance, the dependent variable. The findings of the Boston College Centre study revealed that the incorporation of sustainability aspects had a positive first effect on a company's reputation. Increased employee loyalty was the second effect or influence, and this had a favourable outlook on businesses' chances of keeping their workforces.

Thirdly, when sustainability measures were used, there was an increase in customer loyalty, which improved the likelihood that customers would return, giving the company a better position in the market. The fifth finding was that trash reduction had increased, which can be attributed to recycling initiatives, reusing techniques, and even the expansion of employment prospects. On the other hand, because the necessity for sustainability reporting was not mandatory, the study also included observed results on the loss of accuracy of the sustainability reports for corporate companies. This finding makes sense in light of the fact that businesses seek consumer commitment and confidence as evidence of stakeholder value through innovative environmental reporting (Schaltegger & Wagner, 2006).

Prior studies have demonstrated that companies who actually use sustainability measures are more profitable and have a greater company size than companies that do not use these strategies. In this

instance, businesses with sophisticated frameworks for corporate social responsibility are the sustainability approaches. The market capitalization or share capital, the total asset value or the total yearly turnover value are examples of firm size specifics. These findings support the claim that firms who are attentive to sustainability issues in their yearly performance reporting make more effective financial decisions that result in greater successful company outcomes. 2014's (Cheng et al., 2014)

B. Sustainable Indian Finance

According to a study on the Indian banking model on sustainability, Indian banking has been examined using several parameters, and there has been a way suggested for integrating sustainability (Chong & Liu 2009). Environmental sustainability is culturally appropriate for assimilation within the boundaries of Indian finance and is congruent with Indian economy, which constitutes part of Indian Law. According to the study under review, Indian banking conservation can be carried out at the operational and banking levels by adhering to all environmental laws and regulations. The national level is where sustainability initiatives within the Indian financial system may be developed through sensible rules and regulations.

According to evidence from a study on Indian financing by Deloitte Inc., funding for social aspects and governance, which includes sustainability, was a problem at one point because of the congested financial markets. However, in South East Asia, for instance, Malaysia, there has been a good response to sustainability under Islamic financing because of the rise in demand from investors in the conventional market and the demand for green assets (Hisham et al., 2019). Furthermore, research by Nobanee and Ellili (2017) indicates that the degree of overall corporate risk disclosure has no discernible impact on the performance of both conventional and Islamic banks in the United Arab Emirates.

Additionally, there are significant differences between conventional banks and Islamic banks in the total business risk declaration as well as in the disclosure of all the sub-risks (Nobanee and Ellili, 2017). Therefore, there have been requests for more environmentally friendly and sustainable activities within Islamic banking as the global finance sector evolves through time (Mensi, 2017).

C. Forecasting Financial Turmoil and Sustainable Expansion

The analysis of financial, non-financial, and macroeconomic elements can be used to predict corporate insolvency or financial hardship of a corporation. Information on the precision is provided by a study that was conducted and published in the sustainability journal. The financial difficulties can be predicted using firm-specific characteristics, according to a study.

Based on firm-specific features of financial, nonfinancial, and macroeconomic variables, distress can be forecast with greater accuracy.

The report goes on to state that taking into account both macroeconomic factors and non-financial factors rather than just financial variables will increase the predictability of bankruptcy in businesses. The study focuses on the Indian Growth Enterprise Market (GEM) as a particular case and offers the information above as helpful to regulators inside the Indian capital markets as well as investors or analysts who are potential investors in the Indian capital markets. The study's results and conclusions can be extrapolated to other capital markets with greater emphasis on the financial, non-financial, and macroeconomic elements that determine more accurate bankruptcy prediction (Opler & Titman, 1994).

Results

According to earlier studies, there has been a constant rise in the percentage of periodicals published over time, demonstrating the impact of sustainability research on business financial performance. However, when more responsibility is connected to business operations, more ethical compliance, and more risk management is taken into account, leading to excellent company performance, sustainable reporting provides more individual firm value as well as shared benefit across industries. The conceptual financial management frameworks of sustainable based actions and subsequent risk management,

according to the research, let a corporation achieve higher levels of performance.

Conclusion

In addition to a case study of the Indian financial model system broken down for analysis of the relevance of the concepts in the real world, the relationship between financial growth and sustainability is offered as a conclusion. As a result of non-financial and macroeconomic factors, the research develops a predictive model guideline for distress diagnosis and evaluation in diverse enterprises for various interest parties. The case study of the Indian financial model and system under the sustainability category provide a thorough understanding of the relationship between sustainability and financial growth. Given the financial, macroeconomic, and nonfinancial variables that underline the principles of financial management in sustainability measurement, it has also been recognised that bankruptcy prediction is crucial to investors, analysts, and regulators in capital markets.

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