

Research on the Influence of Green Financial Investment Decision Factors Under the Background of Environment, Society, And Governance

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Abstract: At this stage, with the continuous development of China's socialist market economy, green financial investment has come into being. Investment and financing operation behavior has become an important economic behavior of enterprises in addition to production and operation activities and is also a key factor in enhancing market competitiveness. The investment decision is the core content of enterprise financial management, and scientific and reasonable green financial investment decisions can provide financing opportunities for more enterprises. This paper analyzes the factors affecting green financial investment decisions in the context of environment, society, and governance. Companies wanting to maximize profits from green financial investments need to choose a promising portfolio approach. This paper makes several recommendations to address the green financial investment decision, aiming to promote the sustainable and healthy development of the investment industry.

Keywords: Environment, Social governance, Green finance, Investment decisions.

1. Introduction

Reducing China's environmental pollution is conducive to sustainable economic and social development. The financial structure can provide more financial services to companies. Enterprises can make proper decisions based on various green financial investment service functions. Therefore, green financial investment decisions are conducive to achieving sustainable economic development of enterprises, building a well-off society together, strengthening environmental protection, and properly handling the relationship between humans and nature.

2. Overview of Green Financial Investment Under the Background of Environment, Society, And Governance

2.1. Environment, society, and governance

The context of environment, society, and governance refers to the concept and method of social and governance to fully mobilize all people and forces to achieve environmental protection and resolve social conflicts caused by environmental problems. The theory addresses the new concept of environmental governance at the current stage in China. It emphasizes the need for different social agents to achieve self-management and environmental protection goals. The advantages of applying the new environmental, social, and governance proposition to the green financial investment process are apparent. It can actively prevent and resolve the financial investment conflicts among enterprises caused by environmental problems.

2.2. Green financial investment

The document "Green Investment Guideline (Trial)" elaborates that green investment is an investment instrument that aims to promote corporate environmental performance and reduce environmental risks, vigorously develop green industries, and use systematic green investment decisions to

reduce corporate environmental costs and improve corporate environmental benefits. 2022 updated Central Financial "Guideline" emphasizes the establishment of green investment funds and helps green industries. The promulgation of this document indicates that the state is encouraging green financial investment behavior, while the document's content has a guiding effect on green financial investment behavior.

3. Analysis of the Influence Factors of Green Financial Investment Decision-Making

3.1. Global market

The global investment market is in turmoil, and there are more variables in the market. The spike in oil prices and the depreciation of the U.S. dollar have had a significant impact on green financial investments. In particular, rising gold prices and declining stock prices have caused companies to view the dollar factor in global markets. The percentage of green financial investments in global markets, represented by the U.S., is shown in Figure 1.

It is easy to see from the chart that the United States is firmly in the first place. Its position as a global resource-consuming country, with a quarter of the world's total energy consumption, directly impacts global green financial investment.

3.2. Internet

At this stage, China's science and technology level is constantly improving, and Internet technology has been unprecedentedly developed. By organically integrating Internet technology and green financial investment, enterprises can explore a high-quality path suitable for sustainable development. Internet technology can aggregate data and information on green financing and investment activities such as green building and clean energy, comprehensively strengthen the management of green financial investment services and meet the needs of enterprise

decision-making.

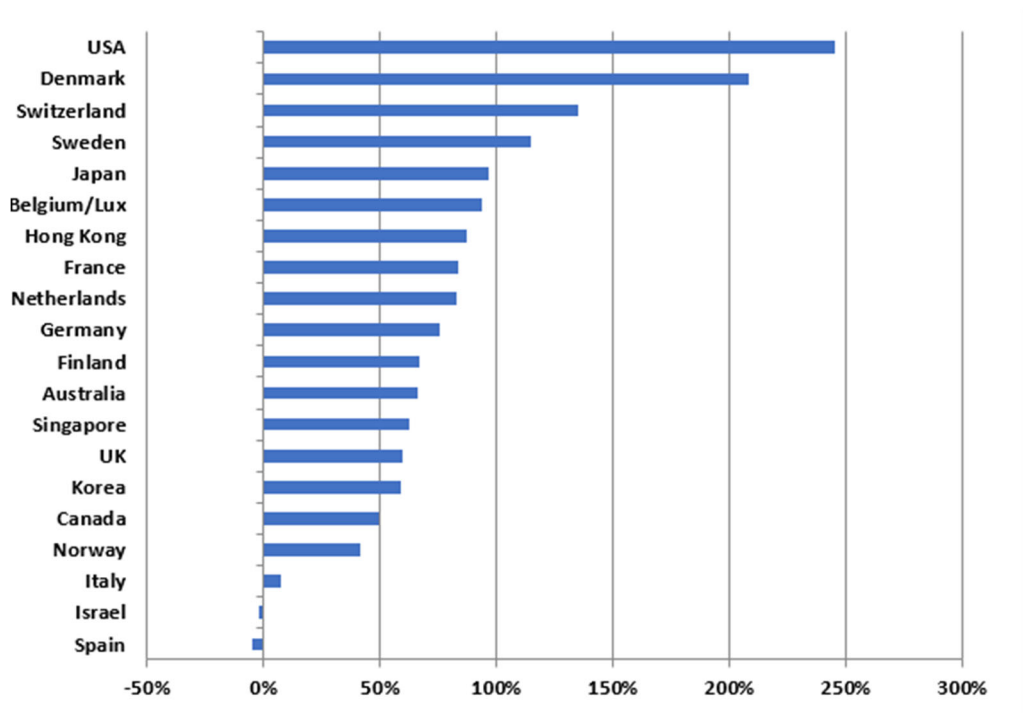


Figure 1. Green financial investment proportion of global markets in developed countries in 2022

3.3. Relationship between individual and institutional investors

Individual green finance investors participate in investment decision-making activities as individuals, also known as retail investors. Individual investors have a smaller amount of investment funds than institutional investors, receive a smaller share of decision-making, and invest at a slower pace, resulting in a limited overall investment level. On the contrary, institutional green finance investors mainly refer to the legal entities engaged in securities investment, which have a large amount of capital, high decision-making power, and many channels to obtain investment data and information. They can make investment decisions in the first instance according to the trend of the green finance market and have strong professionalism and investment ability.

3.4. Other factors

In the environmental, social, and governance context, in addition to the three factors mentioned above, the degree of financialization of the country, the level of investment in national pollution control, the income of the population, and the number of educated people all affect the prospects of green financial investment development.

4. Problems in the Development of Green Financial Investment Decisions

Currently, China's green financial investment market transaction process is not perfect enough, and the green financial investment decision is not scientific enough. The traditional growth model of the crude market economy brings

a series of problems to the production and development of enterprises. Green finance investment decisions based on environmental, social, and governance contexts can pool funds to help better enterprises achieve transformation and upgrading. Therefore, it is important to understand the influencing factors of green finance investment decisions. However, there are still many urgent problems in developing green finance investment decision-making in China, as follows.

4.1. Unsound green financial system

Green financial investment systems first originated in western developed countries. The development of green finance in China started late, and the initial stage mainly relied on learning Western countries' investment experience and models. The financial market is mainly dominated by the types of financial products provided by commercial banks, such as green financial insurance and green bond products. However, the degree of investment decision of these products is limited, and the development is lagging, which leads to expanding the demand in the financial market. Nevertheless, the investment decision is not comprehensive enough, thus affecting the improvement of the green financial system. In addition, China has a relatively backward model of green financial investment management, taking IPO green financial investment as an example. IPO means Initial Public Offering, and IPO financing refers to a new way of financing using equity. It belongs to the common means of enterprise financing method. To recruit funds for the development of the enterprise, the enterprise will disclose its financing process of issuing shares to investors using securities trading, shown in Figure 2.

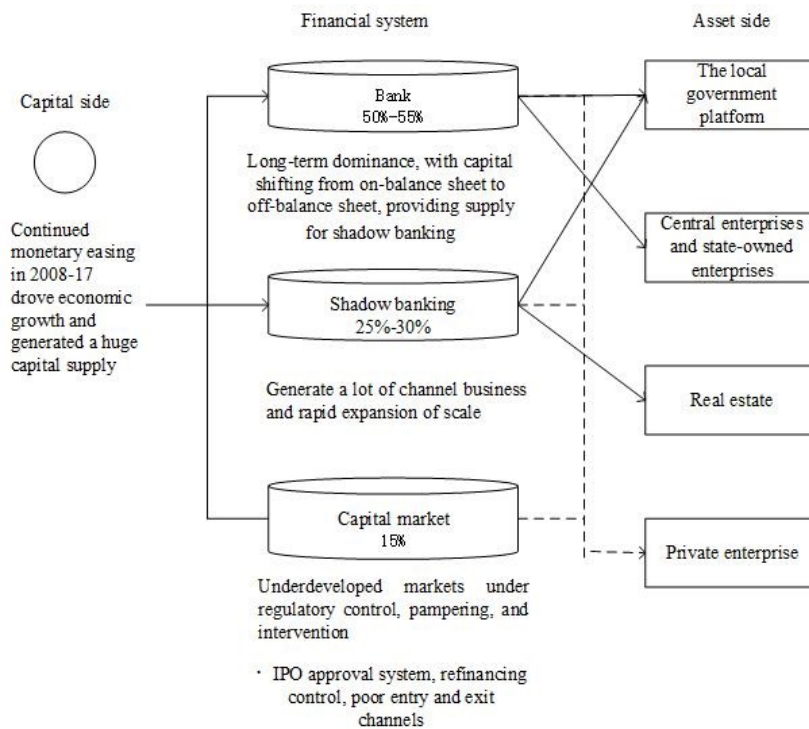


Figure 2. IPO financing green financial flow chart

In terms of the different stages of corporate financing, IPO financing is the way of financing after a company has been through shareholder financing, Series A financing, Series B financing, and Series C financing. Under the green financial investment decision, the feedback of enterprise IPO problem is mainly reflected as (1) normative problem. It mainly refers to the problem of compatibility between enterprises and laws. It includes the competition between enterprises and examines whether there are potential legal disputes between them. (2) Information disclosure issues. The scope of corporate equity disclosure issues is mainly related to the prospectus disclosure aspects. Although enterprises can avoid the normative issues mentioned above to a certain extent, there are still management problems. The common problems enterprises face are their business model's truthfulness, validity, and market share. There is no supporting system established in work mentioned above of green financial investment, and there is also a lack of feedback mechanism and supervision mechanism for green financial investment decisions, resulting in a lack of a sound green financial system.

4.2. Narrow coverage of green financial services

The coverage of China's green financial services investment field is relatively small, covering only a small number of projects in the national economy industry. There is a big gap between the types of green financial investment products, service scope, investment paths, and means compared with those of western developed countries. In addition, China's coverage of green financial services mainly focuses on green credit. Although the credit products consider environmental factors comprehensively, the late power of credit financing is insufficient, and the economic cycle performance of credit is poor, directly hindering the development of China's green financial investment industry.

4.3. Insufficient greening of financial institutions

The environmental, social, and governance context emphasizes the pluralistic co-governance of corporate environmental protection and self-management. However, the greening degree of green financial institutions in China is insufficient, and the development of the green financial market is still in its infancy and has not entered the ranks of rapid development. The investment projects introduced by the state and government are not green enough, and no more green financial investment business has been launched to meet the actual development needs of enterprises. At the same time, enterprise managers do not understand the green concept well. They only understand the knowledge related to financial greening from the superficial level and do not dig deeper into the essence of green financial investment, which affects the decision-making level of green financial investment of enterprises.

5. Effective Strategies to Improve the Level of Green Financial Investment Decision-Making

In the context of environment, society, and governance, whether the investment decision of green financial enterprises is correct will directly affect the business production activities. This paper systematically discusses three aspects: improving the green financial system, giving full play to the function of financial services, and achieving the development of carbon intensity reduction.

5.1. Improve the green financial system

To sound the green financial investment system, enterprises need to integrate the green investment concept in the operation process. According to their actual development situation, enterprises must learn green financial investment

methods and master the green investment process. For example, enterprises can adopt the TOT model for investment according to the social development situation. By selling existing green finance projects, enterprises can obtain cash flow within a limited period. It is a new way of investing in project finance financing, where projects that have been put into production and operation are handed over to investors for a defined period to be operated and managed in a process that is carried out on a cash flow basis. Another example is that green financial investment requires accelerating the turnover of accounts receivable and inventory and establishing a green investment system. The first step of investment is to accelerate the turnover rate of accounts receivable and further improve the turnover rate of corporate inventory in conjunction with the actual situation of corporate equity to ensure that the inventory management data is accurate. It can reasonably optimize the enterprise investment capital, improve the operational level of green financial investment decisions, strengthen risk awareness, and improve the work of internal audit institutions. At the same time, this approach can strengthen green financial investment management and supervision and strengthen the application control of investment management information systems to establish the correct green financial investment decision-making concept and decision-making scheme.

5.2. Give full play to financial services

Affected by environmental, social, and governance factors, China's green financial investment decision-making work toward green investment as one of the core concepts of enterprise development. To improve the level and degree of green financial development, give full play to the green financial service decision-making function, and seek more profit and benefit for their development, enterprises mainly start from the following two aspects. On the one hand, proactively adjust the green financial investment decision-making structure. Enterprises should take protecting the natural environment, maintaining ecological balance, saving ecological resources, and promoting coordinated regional development as their investment decision objectives. Transform the traditional production and operation activities in the past into business decisions based on environment, society, and governance, and constitute an investment service process with high-quality service, strict management, and good operation. On the other hand, many sides cannot carry out green financial investment work without supervision and management. In the context of social governance, internal management, and external management play an active role. Enterprises develop sustainably and healthily by continuously improving and adjusting the corporate green financial investment decision-making system.

5.3. Achieving lower carbon intensity development

Reducing carbon intensity development can improve the overall level of green financial investment decisions, which reflects that green financial investment decision development is resilient and very limited. It can be seen that the reduction of carbon intensity and green financial development are mutually reinforcing and coordinated. Achieving carbon intensity reduction development based on environmental, social, and governance contexts can optimize the enterprise industrial production structure, balance the proportion of new carbon industry development, and finally achieve the purpose

of energy saving and emission reduction of enterprise green finance. The three ways to reduce carbon light development are as follows. First, effectively reduce the efficiency of credit utilization for green financial investment decisions. Enterprises can increase the proportion of investment in clean and new energy projects in the development process and set up special corporate funds to support the application of green financial technology. Banks and other financial institutions can provide green financial investment services, loan programs for enterprises, etc. Second, enterprises should scientifically and reasonably adjust the layout space of green financial investment in low-carbon industries, innovate low-carbon financial service methods, reduce green loan interest rates, and optimize the effect of green financial investment decisions. Third, further, increase the operation of green investment products. In the context of environment, society, and governance, green financial service investment models can incorporate investment evaluation methods, organize corporate low-carbon production into green evaluation reports, and improve the green environment of corporate production and operation following green financial investment programs. For example, enterprises can incorporate green investment products into decision mitigation, actively adjust green investment projects, and regularly track and record green financial investments.

6. Conclusions

In summary, implementing China's green financial investment decision-making in the context of environment, society, and governance is an innovative force for the development of modern enterprises and the financial industry, as well as an essential step for modern enterprises to achieve industrial transformation and upgrading. Enterprises can only improve the overall level of investment decision-making by actively using scientific and reasonable green financial investment methods under the concept of implementing environmental protection and sustainable social development policies. In conclusion, the green financial investment decision is the key content of the innovative development of the enterprise industry, aiming at regulating the capital supply of green financial investment decisions and developing towards an environment-friendly society.

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