ESG INTEGRATION, SOCIALLY RESPONSIBLE INVESTMENT, AND PORTFOLIO MANAGEMENT IN A DEVELOPING COUNTRY CONTEXT: EVIDENCE FROM SRI LANKA

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Abstract

The global prominence of Environmental, Social, and Governance (ESG) factors is growing due to investors' growing attention to portfolio companies' long-term sustainability and societal impact. However, market structure, regulations, and socioeconomic priorities present special difficulties for ESG integration in developing country contexts. Through extensive interviews with investment managers and document analysis, this qualitative study seeks to investigate ESG practices and the adoption of Socially Responsible Investment (SRI) in Sri Lanka. The integration of ESG factors by investors, the impact of regulations, and the influence of SRI in developing economies were examined in key questions. The results show that although there is a growing awareness of ESG issues, systematic integration of these issues into portfolio management is still restricted because of short-term perceptions, data limitations, and regulatory gaps. Opportunities come from cooperative regulator promotion initiatives and new sustainable financial products. Education about long-term benefits, targeted policies to address local needs, and flexibility in adjusting global ESG standards - all of these are necessary for SRI to take off. The findings of the study highlight the critical need for concerted efforts to establish uniform and locally relevant ESG frameworks in developing markets. These efforts should include capacity building, incentives, integrated reporting requirements, and open stakeholder communication. This study fills in significant gaps and establishes the groundwork for the advancement of ESG research and practice in developing nations. It is a groundbreaking examination of sustainable investment in South Asia.

Keywords: *environment, social and governance (ESG), socially responsible investment (SRI), portfolio management, sustainability, developing country context*

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1 Introduction

1.1 Background of the Study

A movement is gradually transforming the setting in the tremendous world of investment, which is frequently dominated by profits and returns. This movement is a paradise in the dry desert of conventional investing. Welcome to the world of Socially Responsible Investment (SRI), a progressive and innovative strategy that embraces a profound commitment towards society and the planet we call home, going beyond simple financial rewards. The value of SRI has dramatically increased in recent years due to SRI's growing popularity and attention (Narayanan & Pradhan, 2023). Through research, teaching, and partnership, the Principles for Responsible Investment (PRI) aims to assist investors in matching their responsible investment practices with the United Nations (UN) Sustainable Development Goals. Responsible investing or Socially Responsible Investment (SRI) is the practice of using sustainability factors, particularly Environmental, Social, and Governance (ESG) evaluations, in investment analysis.

Investment managers are becoming more aware of the significance of including ESG factors in their portfolio management strategies, not just to maximize financial gains but also to support ethical and sustainable business practices. Even poor countries increasingly face the necessity of incorporating ESG issues into their investment landscape as global financial markets become more integrated.

Currently, investors extensively utilize the data. Some exclude poor ESG performers based on the assumption that the reasons leading to low ESG ratings would lead to bad financial performance. Some individuals look for companies with high ESG ratings, believing that strong ESG practices can lead to better financial performance, or choose to invest in environmentally friendly funds for ethical grounds. Some investors include ESG data in their fundamental research. Some individuals utilize the data as activists, investing in firms and thus encouraging them to improve their behavior.

Sri Lanka, a developing nation, has seen a considerable increase in its economy and the rise of its financial markets. With a rise in international investment and a greater understanding of ethical investment practices, its investment climate has also changed. The Sri Lankan financial industry may have historically been dominated by financial performance measurements, but there is increasing awareness that incorporating ESG elements can result in more robust and sustainable investments.

1.2 Problem Statement and Research Gap

SRI has been increasingly linked in recent years to the practice of restricting investing in specific businesses or industries according to ethical convictions.

Therefore, this method is said to hinder the selection of securities that are available for investment, which could impair investment performance and conflict with an institution's fiduciary duty to maximize return on investment (Caplan et al., 2013). However, other commentators have emphasized that this process is an essential component of investment practice and that investors frequently choose to restrict their investment spaces by favoring particular asset classes, industries, or companies. As a result of this appearance of constraint, SRI has lost favor with many investors where thorough investment screening is not mandated by rules.

The UN institutional investors formalized the relationship between ESG variables and investment performance in 2006 when it released the Principles for Responsible Investment (PRI), a set of guidelines that investors can choose to voluntarily accept. This requests that investors evaluate ESG aspects to the degree that they are important to the investment performance of a specific portfolio rather than forbid investing in firms with subpar environmental, social, or governance records.

On the other hand, the Efficient Market Hypothesis (EMH) was put out by Fama (1970), who claimed that a market is considered "efficient" when prices always "fully reflect" the information that is currently accessible. This hypothesis states that information about potential investments is quickly adjusted and reflected in security prices, is cited by ESG skeptics as evidence that, if ESG issues were truly material, they would already be integrated into the fundamental evaluation process of most investors. Investors should not ever be able to outperform the average annual returns that all investors can earn using their best efforts because stock prices are always fair under the EMH. Despite the growing importance of SRI in industrialized economies, the adoption of SRI in developing nations has been hindered by factors like weak regulatory standards, inconsistent disclosure mechanisms, and a lack of motivation among firms (Tripathi & Bhandari, 2014).

Limited research exists on the performance evaluation of SRI in these emerging nations, particularly regarding the impact of incorporating ESG. Therefore, it is crucial to investigate whether considering ESG factors in the Sri Lankan context has an effect on portfolio management practices.

1.3 Research Questions

1. To what extent do Sri Lankan investors integrate ESG factors into their portfolio management practices within the context of socially responsible investment?
2. How does the regulatory environment in Sri Lanka impact the implementation of ESG integration in portfolio management?
3. What are the key factors that influence the adoption and success of SRIs in a developing country context?

1.4 Research Objectives

1. To examine to what extent Sri Lankan investors, integrate ESG factors into their portfolio management practices within the context of socially responsible investment.
2. To explore how do the regulatory environment in Sri Lanka impact the implementation of ESG integration in portfolio management.
3. To identify what factors that influence the adoption and success of SRIs in a developing country context.

1.5 Significance of the Study

For a country like Sri Lanka, research in the integration of ESG into portfolio management becomes paramount in the backdrop of increased interest in sustainable investing and ESG issues. This paper contributes a useful analysis of the benefits and challenges that might be garnered from integrating environmental, social, and governance aspects into the investment decision-making process, which is of particular interest to institutional investors and investment managers. This study can bring out the possibilities and barriers to ESG integration by focusing on unique economic, social, and environmental characteristics in Sri Lanka. It can also contribute towards framing strategies concurred with sustainable objectives and regulatory settings. This research helps add to the existing body of knowledge on ESG integration by giving a voice to a developing market, providing empirical support, and highlighting good practices and barriers. The research findings can usefully inform better green finance in Sri Lanka and more sustainable investing practices, also aiding decision-making.

2 Literature Review

2.1 Stakeholder Theory: Power, Legitimacy and Urgency

The stakeholder theory, as introduced by R. Edward Freeman in 1984, expands the concept of stakeholders to mean any group of persons affected or affecting an organization's goals. From Freeman's work, scholars like Donaldson and Preston (1995) developed primary and secondary groups based on their proximity and impact. Tsang et al. (2023) underscore that for an organization to be sustainable and prosperous, it should create value for various stakeholders, including consumers, suppliers, and communities.

Another important concept in stakeholder theory is the identification and salience of stakeholders, proposed by Mitchell et al. (1997). This model categorizes stakeholders into three classes: power, legitimacy, and urgency, thereby providing a basis for organizations to manage their interactions with these stakeholders. As early as Freeman and Reed (1983) proposed stakeholder management strategies that highlight the need to engage stakeholders, harmonize their interests, and ultimately realize mutually useful outcomes.

Even though it has been adopted, stakeholder theory still faces criticism due to the broadness of its definitions and the difficulty in prioritizing the interests of stakeholders, as noted by Jensen (2001). However, it remains an important theory in guiding organizations toward ethics and sustainability.

2.2 Sustainable Development Goals, Socially Responsible Investment, and Principles for Responsible Investment (PRI)

The Sustainable Development Goals (SDGs) have seventeen goals and 169 targets that range from poverty, hunger, and health to issues of climate change. They are based on the Millennium Development Goals (MDGs), which, according to Biermann et al. (2017), were heavily criticized for ignoring environmental sustainability and social inclusion.

The interlinked structure of SDGs allows for encouraging strategies that would promote synergy but reduce the risk of trade-offs. For Example, Goal 1 (No Poverty) will be related to Goal 2 - Zero Hunger and Goal 3 - Good Health and Well-being. As Nilsson et al. (2016) stated, Climate change, Goal 13, marine conservation, Goal 14, Terrestrial ecosystems, and Goal 15 are core goals regarding environmental sustainability.

The coupling of SRI with the SDGs links financial strategies with global sustainability goals, considering ESG criteria (Gillan & Starks, 2003). Currently responsible investing involves wide ESG criteria in search of opportunities in companies with good ESG performance (Caplan et al., 2013). Assets under sustainable investment reached USD 35.3 trillion in 2020, up 15% from 2018, demonstrating that responsible investing has become mainstream (Latest Edition of the Global Sustainable Investment Review Confirms Strong Growth of ESG Assets all over the World | (Our Center of Expertise, 2021).

Two of the major challenges have always been ESG data quality and standardization (Renneboog et al., 2011). The Principles for Responsible Investment (PRI), established in 2006, provides a framework for investors to consider ESG; hence, the alignment of investments with global sustainability objectives is achieved.

2.3 ESG Integration: Attitudes and Beliefs, Regulatory Environment and Reporting Requirement

ESG has become a very prominent paradigm of investing, focusing on climate, diversity, human rights, and corporate governance. Investor attitudes, regulatory contexts, and reporting obligations are major factors to be taken into consideration while making investments in ESG. In the adoption of ESG issues into mainstream investment decisions, investor attitudes played a very important role. As cited by Flammer (2015), investors who understand the material impact of ESG variables on financial performance are moved towards sustainability and responsible investing. It has been reported by Clark et al. (2015) that a positive ESG view taken by investors could increase the likelihood of capital allocation towards sustainable assets, hence probable outperformance through value alignment with the adopted investing strategies.

There is a growing trend of ESG integration into the strategies of institutional investors in view of its perceived capability to enhance risk-adjusted returns and meet fiduciary duties (Kotsantonis et al., 2016). This new trend puts the economic value of sustainable and responsible methods of investing at the forefront of ethical concerns. Regulations clearly exert an influence on ESG integration. For instance, under the Sustainable Finance Disclosure Regulation (SFDR), it is compulsory for companies in the EU to disclose ESG data. Ioannou & Serafeim (2017) assert that this factor affects company behavior and investment decisions. From this context, this policy standardizes ESG data and enhances transparency in supporting sustainable practices. It is only then that strong reporting criteria make ESG integration effective. These platforms, such as the Global Reporting Initiative and the Sustainability Accounting Standards Board, enable consistent and transparent ESG disclosure, allowing informed investment decisions (Park & Jang, 2021).

2.4 Sustainable Portfolio Management

ESG concerns will be underlined by Sustainable Portfolio Management (SPM) as it integrates the principles of sustainability into investment decisions. This would be negative screening, avoiding industries such as tobacco or arms manufacture, therefore aligning ethical considerations into a portfolio at the possible cost of reduced diversification (Barko et al., 2022). Positive screening will focus on firms with good ESG performance, thus selecting and promoting those organizations that are inclined toward sustainability (Fulton et al., 2012). Best-practice strategies invest in top ESG performers within sectors to promote industry-wide sustainability improvements Latinovic and Obradovic (2013), and for that matter, regulatory support for SPM has risen with an increasing number of countries having adopted ESG disclosure to increase transparency in the market and help investors (Ioannou & Serafeim, 2017). Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB) standards in practice ensure consistency and clarity of ESG reporting, help investors identify social and environmental risk-opportunity scenarios, and put ethical investing into motion for better decision-making within businesses (Lins et al., 2016).

2.5 Developing Country Context.

In the view of Oikonomou et al. (2012), SRI in developing countries needs to be customized to the local environment, considering prevailing social, cultural, and environmental differences. Impact investing, merging social return with financial rewards, is gaining momentum in emerging countries. It solves some of the world's most pressing challenges while solving financial returns, as Cole et al. (2020). Problems and prospects in these places include legislative barriers or poor awareness, while Scholtens and Sievänen (2013) mention innovative financial mechanisms and local collaboration.

Data quality is low, and regulatory frameworks are weak in developing countries, which restrains the integration of ESG. Kotsantonis et al. (2016) underline the clarity in ESG data, while Eccles and Serafeim (2014) study how regulation influences ESG adoption; Giese et al. (2019) examine the consequences of regulatory change for ESG investing. High ESG performance leads to higher financial returns in emerging countries, as documented by Kotsantonis, Advisors, et al. (2016). The balance between risk and return has to be placed with ESG considerations in portfolio management within such regions. Diversification in a portfolio is very important for managing the risk factor, and specialized performance criteria will be required while assessing the impact of ESG or SRI portfolios (Ang & Bekaert, 2002).

3 Methodology

3.1 Research Philosophy

Research philosophy is made up of a set of beliefs, values, and presumptions. It serves as the framework for the research process and has an impact on the techniques employed, the data gathered, and the interpretation of study findings. Interpretivism is a popular study philosophy in the social sciences and humanities that emphasizes the subjective nature of human experiences and the need to comprehend social phenomena in their specific circumstances. This philosophical viewpoint is critical for comprehending complex societal issues and digging into the complexities of human behavior. Interpretivist researchers recognize that individual perspectives, values, and societal influences create human reality, and they aim to untangle the complicated tapestry of various human experiences.

As Lincoln et al. (1985) point out, interpretivism emphasizes the significance of acknowledging the researcher's effect on the research process. It claims that researchers are not impartial observers but rather active participants who bring their own views, biases, and perspectives to the study. This awareness leads to a qualitative research strategy that is accessible to a variety of methods, including interviews, participant observation, and content analysis, with the goal of capturing the rich, context-dependent meanings that people attach to their experiences Creswell and Creswell (2007). Moreover, the interpretivism approach encourages researchers to investigate social phenomena as interrelated systems and to accept the complexities of social reality. It enables a comprehensive understanding of human behavior and encourages the study of many truths and viewpoints, resulting in the creation of in-depth, thematically rich insights. Researchers working under the interpretive paradigm attempt to understand not only what people do, but also why they do it, in order to promote a greater appreciation for the complicated web of social connections and the multifaceted aspect of human existence.

3.2 Research Approach

Investigating hard social issues using qualitative methodologies can reveal subtleties and intricacies in human behavior and social relationships. The inductive approach, which is an exploratory research style in which researchers acquire data and construct ideas and explanations based on the patterns detected in the data, is employed. This bottom-up strategy does not begin with an original premise but allows the findings to emerge spontaneously from the research process (Creswell & Creswell, 2013).

The richness and complexity of inductive research arise from acquiring open-ended data directly from environments, individuals, or groups and then discovering themes and hypotheses from the bottom up (Thomas, 2006). Rather than imposing established frameworks, researchers stay open to new concepts and linkages that develop spontaneously (Van Vo, 2015).

For example, research addressing sustainable investing practices in a developing nation environment may begin by generally analyzing investment manager perceptions and actions related to ESG integration. Through in-depth interviews, researchers may find trends in how these investors make decisions, the reasons and beliefs that affect their tactics, and the consequences they have encountered.

Further inductive methods encourage openness to unexpected results. It comprises a flexible study design that can vary depending on ongoing data collecting and analysis. Findings arise from the research process itself rather than from deductively evaluating pre-defined hypotheses. This exploratory method strives to develop innovative ideas and hypotheses strongly founded in empirical data (Vo, 2015).

3.3 Research Strategy

The broad plan or strategy that researchers employ to answer their research questions or aims is referred to as their research strategy. It describes the techniques and methods for gathering, analyzing, and interpreting data. A research plan aids in study organization and makes sure that researchers can gather accurate and pertinent data to successfully address their research questions.

This study uses a case study approach because it can offer a thorough and context-specific examination of the complex interrelationships between ESG Integration, SRI, and Portfolio Management in the context of developing nations.

Case studies enable an in-depth analysis of real-world occurrences and present a comprehensive view of the subject, as (Yin, 2014) emphasizes. The case study strategy was purposefully selected because it complements the exploratory aspect of the research and is the best method for analyzing intricate, context-dependent phenomena (White & Cooper, 2022). Purposive sampling is used in this study to select cases that represent a variety of experiences and are highly pertinent to the research questions. This allows for a thorough examination of how ESG integration, SRI, and portfolio management interact (Eisenhardt, 1989).

3.4 Time Horizon

An important component of research planning is the time horizon, which is the period of time during which data is acquired and processed to fulfill research questions or objectives (*What Is the Time Horizon for a Research Proposal?* n.d.). In this study, choosing the right time horizon is essential for capturing the evolving nature of the interaction between ESG practices, investment strategies, and financial consequences in developing countries.

The cross-sectional time horizon is one research method that fits with particular aspects of this investigation. According to (Gay et al., 2012), this method entails gathering information from a sample of participants at a particular period. An analysis of the current status of ESG integration, socially responsible investment practices, and portfolio management methods in the selected developing country will be possible in this study via the use of a cross-sectional time horizon. This approach allows for a holistic assessment of the current environment by providing a snapshot of the characteristics, behaviors, and attitudes of the relevant population with regard to ESG practices and investment strategies.

In the context of this study, using a cross-sectional time horizon is useful since it makes it possible to gather information from a variety of stakeholders, including fund managers, policymakers, and ESG/SRI practitioners, at a particular moment. It gives a useful snapshot of the current procedures and a basis for evaluating their current influence on portfolio performance and financial results. By using this temporal horizon, the research can throw light on the current problems and possibilities encountered by investors and policymakers while also providing insights into the level of ESG integration and SRI within the context of developing nations.

3.5 Unit of Analysis, Population, and Sample Size

Unit of analysis in research refers to the entities or topics that you are researching; in this study, it refers to institutional investors in Sri Lanka. Organizations like banks, insurance firms, mutual funds, and pension funds are just a few examples of these institutional investors. The population is the bigger group from which the sample will be picked up. Investment managers who are registered with Sri Lanka's Securities and Exchange Commission (SEC) make up the population of this study. Making choices on behalf of the institutional investors is the responsibility of these investment managers.

Investment managers who have registered with Sri Lanka's Securities and Exchange Commission (SEC) make up the population under scrutiny. Investment managers are a crucial stakeholder group in this study since they are charged with making choices on behalf of institutional investors. This population serves as the study's intended audience, from whom a sample will be drawn (Djamba & Neuman, 2002). As it considers the entire population of investment managers within the framework of ESG integration and socially responsible investment, this technique is appropriate for getting a high level of precision and exactness in the research's conclusions.

3.6 Sample Technique

Sampling is a crucial component of research because it enables scientists to make valid inferences about a whole population without having to look at each participant individually. The best appropriate methodology for the research topic "ESG Integration, Socially Responsible Investment, and Portfolio Management in a Developing Country Context" is a non-probability sample strategy known as "purposeful sampling." Researchers can carefully and intentionally choose persons or products from the public based on their special abilities or traits by using purposeful sampling. Purposeful sampling is the conscious selection of people who have relevant knowledge or experience that is directly related to the research aims, unlike probability sampling methods that rely on random selection (Palinkas et al., 2015). This strategy is especially helpful in studies that concentrate on a particular segment of the population that is thought to be essential for achieving the study's objectives, as is frequently the case in qualitative studies, case studies, and research projects that target specialized or difficult-to-reach populations (Creswell & Creswell, 2013).

In the context of this study, purposeful sampling will be used to identify and choose investment managers who are registered with Sri Lanka's Securities and Exchange Commission (SEC) and who have a track record of success in ESG integration, socially responsible investing, and portfolio management. This strategy will guarantee that the sample is made up of people who can offer insightful and pertinent information about the research issues, improving the overall caliber and depth of the study's conclusions (Conway & Stanley, 2006). The research can successfully address its specific objectives and gain a thorough understanding of the interaction between ESG practices, investment strategies, and financial outcomes in the context of developing countries by carefully choosing participants based on their specialized expertise and experience.

3.7 Data Collection Method

The quality and dependability of the research findings are largely dependent on the data collection techniques used. For this research project, choosing the best data collection techniques is essential to answering the research questions, achieving the project goals, and gathering the specific types of data required. Semi-structured data gathering and document analysis are two important data collection techniques used in this investigation.

A qualitative research method called semi-structured data collecting combines aspects of unstructured and structured data collection. According to this approach, focus group discussions, surveys, or interviews are guided by pre-designed open-ended questions or subjects (Bernard, 2017). This method preserves the fundamental structure while allowing participants, in this case, investment managers registered with Sri Lanka's Securities and Exchange Commission (SEC), to communicate their thoughts, experiences, and points of view in their own words. To learn more about these investment managers' approaches, thought processes, and experiences with ESG integration, socially responsible investing, and portfolio management in the context of developing nations, semi-structured interviews will be performed with them.

Official reports, memoranda, books, newspapers, photographs, audio and video recordings, and other sorts of textual, visual, or recorded resources can all be methodically examined as part of document analysis, a research process (Bowen, 2009). Document analysis will be used in the framework of this study to collect pertinent data from a variety of sources, including investment policies, annual reports, blogs, and pertinent materials from the SEC and financial institutions. Using this approach, the study will be able to gather important data without engaging directly with people on the development of ESG integration, socially responsible investment practices, and portfolio management methods in the developing world. Examining these materials closely will require finding trends, themes, and important information to provide depth and breadth to the investigation.

Another key criterion is data triangulation, which is a key component of the research approach in this study. This strategy improves the validity and reliability of the research by combining semi-structured interviews with investment managers with document analysis. The conclusions are given credibility by cross-verifying the qualitative information obtained from the interviews with the quantitative and qualitative information obtained from official reports, policies, and publications. Data triangulation offers a more thorough and robust knowledge of the complex interplay between ESG practices, investment strategies, and financial outcomes in the context of the selected developing country. It not only validates the findings but also mitigates any possible prejudices associated with a single data collection method.

3.8 Data Analysis

The systematic use of approaches and procedures to organize, evaluate, and derive meaningful conclusions from the obtained data constitutes the data analysis phase, which is a critical step in the research process. Effective data analysis is essential for the study in order to derive insightful conclusions, spot trends, and fulfill the study's goals. Thematic analysis is chosen as the main data analysis technique because it is especially well-suited for identifying, analyzing, and presenting patterns or themes in the collected data, which is in line with the qualitative nature of this research.

Thematic analysis is a qualitative data analysis technique that is often used in research incorporating interviews, focus groups, open-ended survey responses, and textual materials. This strategy comprises a methodical procedure for finding, examining, and reporting patterns or themes within the acquired data. Researchers who conduct a thematic analysis typically go through many critical stages, including familiarizing themselves with the data, creating preliminary codes, looking for themes, evaluating themes, defining and labeling themes, and eventually drafting the report (Braun & Clarke, 2006).

Thematic analysis will be used in this study's context to examine the qualitative information gathered from semi-structured interviews with investment managers. These interviews should provide detailed and context-specific information about portfolio management strategies, socially responsible investing, and ESG integration in the context of developing nations. The obtained data will be thoroughly examined using thematic analysis to find recurrent themes and patterns that appear in the participant responses. The research intends to provide a thorough and in-depth understanding of the interaction between ESG practices and investment strategies by classifying and naming these themes. This will ultimately make it easier to explore the research topics and fulfill the research objectives. Note that thematic analysis actively strives to establish meaningful patterns that address particular research topics, going beyond basic summaries or categorizations of codes (Braun & Clarke, 2006). The quality and complexity of the study conclusions are improved because of this method's ability to unearth nuanced and spatially pertinent discoveries.

4 Data Presentation, Analysis and Discussion

4.1 Data Presentation

4.1.1 *Overview of Data Sources*

This study of ESG integration in Sri Lankan investment practice is grounded in-depth interviews with investment managers to elicit their views and decision-making processes. These were supplemented by a document analysis of key papers and policy frameworks that helped to give an in-depth picture of the challenges and strategies in the Sri Lankan market. These will, in turn, provide balanced information ranging from an overview of the ESG practices to the significant themes about socially responsible investing in Sri Lanka, which are based on qualitative observations and document data.

4.1.2 *Data Coding, Categorization and Thematic Coding*

The research employed systematic coding and thematic analysis to identify themes from the transcripts of the interviews and documents. This process of systematic searching for recurring ideas and categories identified key themes with a focus on ESG integration into portfolio management. Thematic coding organized replies and brought to light investment plans, difficulties, possibilities, and regulatory implications in Sri Lanka. Iterative coding processes included frequent peer reviews and team talks to enhance reliability and build in different perspectives.

Table 1: Categories and Nodes related to ESG Integration in Portfolio Management Theme

ESG Integration in PM		11	48
Investor and Stakeholder Considerations		11	39
Investor Consideration		11	25
Financial-Environmental Balance		2	3
Growing Focus on ESG		3	6
Immediate Financial Challenges		3	3
Macroeconomic and Sentiment Analysis		6	8
Predicted Trends & New Products		5	5
Stakeholder Considerations		7	14
Balancing Shareholder Perspectives		4	4
Green Bonds Opportunities		2	4
PRI Stakeholder Impact		2	2
PRI Stakeholders and ESG		3	3
Skill Building and Stakeholder Engagement		1	1
Other Considerations		3	9
Adapting to Climate-Related Dynamics		1	1
Climate Change as ESG Focus		2	4
Future Trends & Climate-conscious Investments		2	3
Shift towards Climate-Resilient Investments		1	1

Table 2: Categories and Nodes Related to Regulatory Impact Theme

Regulatory Impact		10	37
ESG Integration and Compliance		10	37
Internal and External Compliance		7	14
External Compliance		7	14
Environmental Emphasis		1	1
Navigating Regulatory Complexity		3	5
Recognizing ESG's Importance		2	2
Regulatory Changes & S1S2		2	2
Transparency in Communicating ESG Value		4	4
Internal Compliance		0	0
Commitment Beyond Compliance		2	3
Governance & ALCO		1	1
Internal Collaboration for Compliance		2	2
Risk Management Approach		7	13
Collaboration for Risk Mitigation		5	6
ESG Weightage in Risk Management		1	1
ESMS Due Diligence		3	4
Short-Term Focus and Risks		1	1
Shift in Decision Making		7	10
Long-Term Integration and Adoption		3	3
SEC's Role in Decision-Making		1	1
Short-Term Importance of ESG		1	1
Strategic Shift in Decision-Making		5	5

Table 3: Categories and Nodes related to SRI in Developing Country Context Theme

SRI in Develpong Country Context		11	52
Developing Markets and Dynamics		10	36
Challenges and limitations		1	5
Diverse Dynamics in Emerging Economies		5	7
Flexibility in Adapting Methods		4	4
Local Emphasis on Short-Term Gains		3	3
Shift to Complete ESG		2	2
Societal Ripple Effect		4	5
Struggle with Global-Local Balance		6	6
Tailored Approach for Emerging Markets		3	4
Education and Awareness		5	16
Addressing Investor Knowledge Gaps		4	7
Anticipating Gradual Shift in Attitudes		2	2
Continuous Education on ESG		1	1
Educating on Long-Term Benefits		2	2
Knowledge Gap in ESG		3	4

4.1.3 *Presentation of Key Themes and Supporting Evidence - Integration of ESG Factors in Sri Lankan Portfolio Management Practices*

- Data sources and coverage

Sources for the analysis of ESG integration in Sri Lankan portfolio management come from academic articles, pictures, video transcripts, documents, and interviews. The CSE Sustainability Reporting Guide underlines ESG as a vehicle of socially responsible investing and shows the commitment to environmental projects, which is well exemplified by the case of the Colombo Stock Exchange Green Bonds. The stakeholder activity is underlined by visual representations in the form of dealing with ESG issues, and this stakeholder activity in itself points to a social responsibility emphasis. There is a trend from the interviews that ESG will become increasingly important in the investment sector of Sri Lanka, pointing to a number of ethical investment considerations and needs for new financial products, as well as increased abilities in ESG research. The literature identifies the incorporation of ESG analysis into company strategy and investment processes, in particular long-term value creation and adaptive business models, as put across by insights on YouTube videos.

- Key Themes and Trends – Investor Considerations, Shareholder Considerations and Other Considerations

For investors who want to invest in an ethical and sustainable way, ESG criteria drive their thinking. Investors depend on ESG standards for more than regular measurements of finances, being the yardsticks for measuring how morally sustainable and responsible the operations of a company are. "*ESG is a set of standards for a company's behavior used by socially conscious investors to screen potential investments*.". In view of the following context, because of the several long-term benefits associated with ESG principles in terms of brand visibility, decreased operational risks, and adaptability to changes in the market, for instance, ESG becomes an attractive choice to implement for investors. "*Even if ESG is expensive and requires much time to be implemented, a company that turned to be sustainable is able to stand the test of time*." ESG investing has raised the bar of corporate social responsibility by attracting moral investors and emphasizing the importance of aligning financial goals with the social and environmental consequences. Currently, a significant portion of market capitalization worldwide is engaged in sustainability reporting. "*ESG investing is the new benchmark when it comes to assessing a company's corporate social conscience*."

Incorporating ESG principles within business plans is key organizational planning from the perspective of stakeholders to be in a position to guarantee resilience and long-term value. Therefore, the long-run effect that results from adopting the ESG norms might be seen in the profit-and-loss statements, such as lower risk and better reputation, which surpass the initial costs radically. "*One of the material issues is the near-term impact on our P&L… arising from the standards that will be effective very soon, in particular S1, S2, and the provisioning requirements related to these standards*." The growing liquidity of financial instruments, for example, green and blue bonds, is probably a signal of the growing importance of sustainable finance. "*Indeed, we expect increasing attention to new financial instruments, including green bonds, blue bonds, and other ESG investments*." Emerging markets companies face similar complexities in the implementation of ESG measures, for which the sourcing of data and institutional challenges require a forward-thinking solution and access to open channels of communication. Preventing the risk of reputation thus forms a large part of several ESG policies that, in turn have great reliance on in-depth data. Such a strategy may discourage investors from investing in underdeveloped countries. "*Improved reporting of the SDGs and adherence to standardized ESG frameworks are also needed to meet stakeholder expectations, showing corporate accountability*." The KPMG Survey of Sustainability Reporting 2025 also underscores the importance of corporations reporting better on the SDGs.

It has two major benefits for companies: reduction in large-scale environmental and social risks and new markets and opportunities. There are two major opportunities in adopting ESG. First, it opens new markets and opportunities for companies. " *Companies that adopt ESG can mitigate climate-related risks, promote positive corporate images, and contribute to broader sustainability goals.*" A flexible and sustainable company strategy has to consider socially responsible investing, diversity, financial inclusion, long-term wealth creation, and environmental risks such as climate change, among others, that are quite risky in nature. Collaborative planning with industry experts coupled with proactive change in line with climatic trends will help maintain a competitive edge. "*Collaborating with industry experts and staying updated about climate-related developments allows us to proactively change our strategies to meet the demands of responsible and forward-thinking clients.*" Join the leading industry experts for investment decisions. The quote shows an advanced level of awareness about the impacts that continued industrialization is having on our environment and society, hence making sustainability factors an intrinsic part of investment decisions. This very phrase highlights the increasing importance of sustainability in investment decisions. It shows that more than ever now, a holistic approach to responsibly adaptive and sustainable business models is required to truly integrate such ESG themes as diversity, financial inclusion, and socially responsible investing. It is the potential of global climate change solutions to provide innovation and good business conduct that offsets the urgency of facing these existential risks. " *Headlines are increasingly dominated by the consequences of climate change, it is important to note that there are many opportunities to provide solutions to these existential threats.*

4.1.4 *Presentation of Key Themes and Supporting Evidence - Regulatory Impact*

- Data source and coverage

The ESG regulations of Sri Lanka are established in compliance with international standards, including GRI and SASB. Moreover, they consider environmental problems related to pollution and carbon emissions. The document on sustainability from the CSE has outlined the ESG practices and regulatory steps that Sri Lanka has taken and further reiterated that the incorporation of ESG components within corporate plans and reporting is very imperative. While challenges remain to be addressed, namely those of access to data and coherence of legislation, Sri Lanka is making progress toward ESG integration. The country encourages financial institutions to implement ESG analysis, as laws in Sri Lanka present a mix of incentives and impediments. In essence, this is symptomatic of an enhanced focus in the financial sector of Sri Lanka on management with respect to climate change and sustainable investment.

- Key Themes and Trends – Internal and external Compliance, Risk Management and Shift in Decision Making.

"Currently, there are a few ESG standards available through numerous institutions such as the Global Reporting Initiative (GRI); Sustainability Accounting Standards Board (SASB), European Financial Reporting Standards and International Financial Reporting Standard." What can be insinuated from this statement is the importance of standardized frameworks for ESG compliance which allows for both consistency and comparability in reporting. However, stakeholders have diverse needs; a flexible strategy needs to bring all these standardized frameworks somehow together to meet the predetermined criteria. The sentence "The thorough examination is based on the application of applicable GRI guidelines, and the perceptive advice offered by CSE ESG" stands for the manner in which the in-depth examination based on available but responsive premises has been done. The operation becomes more open and legitimate when one combines existing standards with external knowledge. In dealing with ESG concerning the investment and financial sectors, "The SEC plays a pivotal part in overseeing the financial markets, and its impact is substantial" scenes emphasize the regulatory impact about the relevance of ESG matters.

By applying ESG principles to portfolio management, especially in high-risk investments, "Our aim is to ensure that even in the risky high-environmental-risk portfolios, classed as ABC, we consider the effects on the environment." it evidences a proactive disposition toward risk management. The current statement emphasizes the need for ESG risk identification and management in order to enable meaningful investment decisions and resource allocation. "Identifying key ESG risks in the short, medium, and long term is critical to investors who use this information to determine how their capital is allocated among alternative investments," the statement reads. Stressing a data-driven approach to risk management, it "supports improved risk management and efficient allocation of resources to the most pressing issues along the value chain through the valuable insights provided by a broader range of metrics," improving the capacity to prioritize and mitigate risks successfully. Another instance of proactive risk reduction is the Environmental and Social Management System through the generation of detailed reports reviewed by the Sustainability Committee.

The statement, "A company's strategy would enable them to focus more on taking steps to lower pollution, reduce CO2 footprint, reduce waste, and increase the use of renewable energy" emphasizes how crucial it is to strategically incorporate ESG principles into business plans in order to ensure long-term sustainability. Very often, it is reiterated how very important it is for ESG to be put into business plans if sustainability must be done throughout the long term. The statement "Aligning corporate strategy with SDGs facilitates building resilient businesses as it measures the economic, environmental, and social impacts of the organization, addressing several concerns of key stakeholders" underlines the holistic approach to decision-making that also makes sustainability an intrinsic part of the basic business plan. "In the short run, I see ESG getting more importance, especially in reaction to current global challenges" which indicates enhanced awareness and prompt market responses to ESG considerations, and shows growing understanding of the importance of ESG in decision-making. Long-term trends indicate that ESG is only likely to further integrate into decision-making and become inescapable. As commented in "In the long run, I think ESG will become an integral and unavoidable part of portfolio management " This shift is part of the drive to enable ESG analysis to be integrated into investment processes, driving long-term value and performance.

4.1.5 *Presentation of Key Themes and Supporting Evidence - SRI in Developing country context.*

- Data sources and coverage

There are a number of publications covering SRI in developing countries at large. The ESG guidelines underline a shift in financial incentives and sustainability trends. The Colombo Stock Exchange refers to the necessity of sustainability reporting on a global level. Last but not least, interviews help to draw meaningful insights into the opportunities and challenges arising from ESG integration. They put forward the impor nce of local context and market maturity. The visual resources also underline the requirement for vigilance in precarious socio-economic environments. The literature reviews market mechanisms, while ta the video transcripts deal with reputational issues, effects on developing nations, and impending ESG mandates. Together, these can be seen to provide a multi-dimensional view of SRI in developing countries and, hence, assist stakeholders in this dynamic sector.

- Key themes and trends - Developing Markets and Dynamics and Education and Awareness

"*Currently in Sri Lanka, ESG reporting is not a part of mandatory financial reporting*." Companies do, however, publish voluntary sustainability reports, which certainly is a good practice even if ESG reporting is not mandatory. This change epitomizes the enhanced commitment of the corporate sector of Sri Lanka towards sustainability and transparency. The passage states, "*Flexibility is key in adapting our method to align with the unique needs and goals of each growing market.*" According to him, ESG strategies should be calibrated based on the maturity of markets and local conditions: "*Our method involves judging the development of each market, knowing the local dynamics, and changing the weightage given to ESG and non-ESG factors appropriately*" The quote, "*A recent report by the consultancy Intellidex for the UK government warned that some approaches to ESG could actually restrict the flow of funds to developing countries*", calls for cautious thought to be exercised in order to avoid the negative impact on sustainable funding. It also brought out the difficulties involved in implementing ESG in developing countries.

"To educate investors on ESG, the significance of effective ESG practices, and the disclosure of sustainable reporting by listed companies, the Securities and Exchange Commission (SEC), The Colombo Stock Exchange, and CFA Society Sri Lanka (CFASSL) have entered into an MOU." At the community level, this will increase investor knowledge about and understanding of ESG issues, which will foster integrated decision-making that takes into account ESG concerns. The statement "In addition, Colombo Stock Exchange has shared a Sustainability Guide to assist and guide listed companies on how to approach the topic of sustainability" shows that there are proactive attempts to support businesses in including ESG concepts into their operations. The subsequent "ESG investing is quite a new concept; as a result, there is limited information and data available for investors to assess" brings out the challenges that novices in the sector face while evaluating ESG investments. There has to be continuous education in order for the shift to sustainable and responsible investment to come about. This shift has to take place over time: "Educating owners about the long-term benefits of SRI, even in the setting of a volatile macroeconomy, is a key aspect of encouraging this shift over time" the statement reads. Education is something that never stops. Fund management is one area that should be continuously educated about evolving ESG trends and changing regulations. In a manner of speaking, they should keep an update on global best practices in the industry and ESG trends.

5 Key findings, Conclusion and Recommendations

5.1 Key Findings

The study concludes that though investors in Sri Lanka are increasingly aware of ESG and, therefore, increasingly willing to exhibit such principles, integrated practice during portfolio management is absent. Availability of data, maturity of the markets, regulation incentivization, and subsequently, the cost of adoption are also significant determinants of adoption. As far as long- versus short-term profits are concerned, the views of institutional investors and individual investors are not in agreement.

The integration of ESG in Sri Lanka is resulting from the help of reporting standards and training programs. However, as indicated by the study, it is necessary to make ESG reporting mandatory due to the lack of enforcement. Besides, it is a significant challenge to integrate local developmental needs and global ESG standards.

The study emphasizes the importance of tailor-made strategies and market popularization, focusing on how key stakeholders within Sri Lanka should see the benefits of ESG. It invokes as paramount the strategies of flexible, open methods and creative solutions in sustainable finance. In general, the need for legislation, education, and policy pointing in the right direction is vital for addressing issues and facilitating the adoption of ESG in Sri Lanka.

5.2 Theoretical, Policy and Managerial Implications

5.2.1 *Theoretical Implications*

- New Knowledge Creation

By highlighting the gap between awareness and methodical integration into portfolio management, the study offers a refined insight into the present status of ESG adoption in Sri Lanka. This adds fresh perspectives to the body of knowledge by illuminating the dynamics of sustainable investing strategies in developing nations.

- Bridging Gaps in the Literature

The study closes gaps in the literature regarding the difficulties faced by Sri Lanka's investment community by identifying important factors influencing the adoption of ESG, such as market maturity, regulatory incentives, data availability, and perceptions of short-term costs. This strengthens the conceptual model for understanding the complexities of ESG adoption in emerging nations.

5.2.2 *Policy Implications*

- Regulatory Frameworks

The study's conclusions can be used by policymakers to support current initiatives to encourage ESG integration. According to the research, obligatory ESG disclosures are required even if sustainability reporting rules and cooperative education programs are already in place. Enforcement mechanisms are also missing. This emphasizes how crucial it is to fortify and uphold regulatory frameworks in order to guarantee successful ESG implementation.

- Balancing Local demands with Global requirements

Policymakers must create focused, adaptable policies that consider the challenges of striking a balance between local developmental demands and global ESG requirements. The study emphasizes how crucial it is to create policies that both support international sustainability goals and recognize the difficulties encountered by Sri Lanka's emerging economy.

5.2.3 *Managerial Implications*

- Strategic Planning

Investment managers can use the results to inform the creation of strategic strategies that tackle the obstacles to systematic ESG inclusion. This entails managing market maturity, taking advantage of legislative incentives, resolving problems with data accessibility, and skillfully articulating the long-term advantages of ESG practices to dispel misconceptions about their immediate costs.

- Capacity Building and Open Communication

The focus on adaptability, transparency, and capacity building underscores the necessity for investment managers to cultivate an environment that promotes growth and adjustment. This entails keeping lines of communication open with stakeholders and developing the expertise and abilities needed inside the company to handle the challenges of ESG integration.

6 Limitations and Future Research

Several limitations apply to this conclusion, so the findings of this exploratory qualitative study cannot be generalized. Quantitative validation, therefore, is recommended by survey research and comparative studies conducted in similar developing economies in order to increase generalizability. However, the results from Sri Lanka may not apply to all the developing countries due to differences in market characteristics.

However, it is true that banks and institutional investors could also provide a wider view; the study included only portfolio investors. An interesting analysis could also be made of articulated perspectives of the regulations. For the development of ESG theoretical frameworks and hypotheses to be tested, future studies should extend their reliance on current work. Longitudinal research on ESG integration and sustainability reporting will also be beneficial. All in all, this study paves the way for future research in sustainable finance and ethical investment in low-income countries.

7 Conclusion

This research illuminated the potential and challenges of ESG integration and SRI adoption in a setting of developing countries characterized by conflicting goals and resource constraints. The study was able to make an in-depth analysis with respect to the extent to which investors in Sri Lanka assimilate concerns related to environment, social, and governance into the management of their investment portfolios, thus showing the readiness towards sustainability practice. However, special efforts are required to provide regulatory incentives, raise awareness, and communicate long-term benefits. The research also partially succeeded in testing the impact of the regulatory environment by underlining the need for more efforts toward the formulation of better rules that would foster ESG integration. The study is concluded by emphasizing the identification of critical elements affecting the uptake and effectiveness of SRIs, building data and knowledge capacities, and recognizing the challenges inherent within the setting of developing nations. As ESG investment starts to gain momentum on a global scale, there will be a need for targeted cooperation and locally relevant legislation to ensure that the developing world does not fall behind. The research provided data-driven and pragmatic insights, which could be used by investors and regulators underpinning ethics-led investment strategies with regard to the balance between social responsibility and profitability.

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