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# HOW DO GREEN INVESTMENTS AFFECT A COMPANY'S FINANCIAL STABILITY?

(Analysis of the Relationship Between ESG Strategies and Long-Term Financial Performance)

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### Abstract:

This article provides a comprehensive analysis of the impact of green investments—capital allocations based on environmental, social, and governance (ESG) criteria—on the long-term financial stability of companies. The study examines both the positive effects and limiting factors of green investments from the perspectives of operational cost dynamics, access to capital, risk management efficiency, brand equity, and market competitiveness. Taking into account the economic context of Uzbekistan, the financial implications of implementing ESG strategies for national companies are evaluated. In conclusion, when properly implemented, green investments significantly strengthen a company's financial stability and become a source of competitive advantage.

**Keywords:** Green investments, ESG, financial stability, sustainable development, corporate strategy, environmental economics, Uzbekistan.

### 1. Introduction

In the modern business environment, the concept of sustainability has undergone a fundamental transformation: it is no longer viewed solely as environmental responsibility, but as a strategic advantage for competitive business and a

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foundation for long-term financial performance. Over the past decade, investment flows in global capital markets based on Environmental, Social, and Governance (ESG) criteria have grown at an unprecedented pace. According to Bloomberg Intelligence, global ESG assets exceeded \$35 trillion in 2020 and are projected to surpass \$50 trillion by 2025.<sup>1</sup>

However, are green investments essentially an additional cost that may adversely affect financial performance? This question has long attracted the attention not only of researchers but also of corporate executives, shareholders, and financial analysts. Existing empirical studies have not reached a consensus: while one group of authors demonstrates a positive impact of green investments on financial performance, others consider this relationship to be conditional or even negative. This article examines this controversial issue from a new analytical perspective. It considers not only general global trends but also the specific features of Uzbekistan's economic context. The objective of the study is to identify the key mechanisms through which green investments affect a company's financial stability, to systematically evaluate both positive and negative factors, and to develop practical recommendations.

### 2. Literature Review and theoretical framework

The relationship between green investments and financial performance is grounded in three main theoretical streams. The first stream is the Resource-Based View (RBV). According to this theory, developed by Barney (1991) and Wernerfelt (1984), a firm's sustainable competitive advantage stems from its unique, difficult-to-imitate resources and capabilities. Environmental technologies and green operational systems can serve as such strategic resources. The second stream is Stakeholder Theory. Developed by Freeman (1984), this theory emphasizes that a firm's long-term financial success depends not only on

<sup>1</sup> Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), 99–120.

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shareholders but also on the interests of all stakeholders, including employees, customers, communities, and the state. ESG criteria are considered a mechanism for ensuring this balance of interests.

The third stream is portfolio diversification and risk management theory. Based on modern portfolio theory developed by Markowitz (1952), ESG-oriented firms tend to reduce systematic risk, as they are less exposed to environmental and regulatory sanctions, reputational crises, and supply chain disruptions.

In the field of empirical research, a meta-analysis conducted by Friede, Busch, and Bassen (2015), which covered more than 2,000 studies, showed that in 90% of cases there is a positive or neutral relationship between ESG indicators and financial performance. At the same time, a study by Khan, Serafeim, and Yoon (2016) found that focusing on material ESG factors significantly improves financial performance, whereas spending on immaterial ESG factors may have the opposite effect.

### **3. Mechanisms of the impact of green investments on financial stability**

#### **3.1. Reduction of operating costs**

One of the most direct financial benefits of green investments is the reduction of operating costs. Energy efficiency projects, waste recycling systems, and resource optimization technologies require initial capital expenditures; however, in the long term they significantly reduce production costs.

According to the International Energy Agency (IEA), industrial companies typically achieve full payback within 3 to 7 years after investing in energy efficiency and then benefit from continuous cost savings over the following 15 to 20 years. In its 2022 report, Johnson Controls stated that the implementation of green building technologies across its global operations reduced annual energy costs by 23%.

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In addition, the transition to renewable energy sources protects companies from volatility in raw material prices. This is a particularly important financial advantage in energy-intensive industrial sectors.

### 3.2. Improving access to capital and financing conditions

Green investments strengthen a company's position in capital markets. First, firms that comply with ESG criteria gain access to more favorable financing instruments such as green bonds and sustainability-linked loans. According to the Climate Bonds Initiative, the global green bond market exceeded \$500 billion in 2023, and these instruments were issued at interest rates 15–40 basis points lower than conventional bonds.<sup>2</sup>

Second, an improved ESG rating makes a company more attractive to institutional investors. Today, major asset managers such as BlackRock, Vanguard, and State Street increasingly integrate ESG criteria into their investment decisions. This raises demand for shares of ESG-oriented companies and reduces their cost of capital.

Third, green certifications and compliance with international ESG standards (such as GRI, SASB, and TCFD) facilitate access to global markets. This is particularly important for companies in Uzbekistan, where ESG compliance requirements for attracting foreign direct investment are steadily increasing year by year.

### 3.3. Effectiveness of risk management

One of the most underestimated yet financially significant aspects of green investments is their effectiveness in risk management. This encompasses three main types of risks:

– Regulatory and political risks: In many countries around the world, environmental regulations are becoming increasingly stringent. Carbon pricing

<sup>2</sup> Climate Bonds Initiative. (2023). Green Bond Market Summary. London: CBI.

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mechanisms, emission limits, and compliance requirements for environmental standards initially represent costs for companies implementing ESG strategies; however, over time they turn into a competitive advantage. In contrast, companies that delay environmental innovation may face significantly higher compliance costs and penalties in the future.

– Reputational risks: In the era of social media and digital communication, environmentally irresponsible corporate behavior spreads rapidly and can lead to significant financial consequences. The 2010 Deepwater Horizon oil spill in the Gulf of Mexico caused by BP resulted in losses exceeding \$65 billion for the company, clearly demonstrating how costly the lack of investment in environmental risk management can be.

– Supply chain risks: Climate change, water scarcity, and raw material shortages can lead to disruptions in supply chains. Green supply chain management helps mitigate these risks in advance and ensures greater operational stability.

### 3.4. Brand capital and customer loyalty

Modern analyses of consumer behavior show that environmentally and socially responsible companies tend to enjoy higher customer loyalty. According to the Nielsen Global Sustainability Report, 66% of global consumers—and 73% in emerging markets—are willing to pay a premium for products from sustainable companies.

This trend enhances a company's pricing power and gross margins. Research by Unilever shows that its sustainable brands grew 69% faster than its conventional brands and accounted for 70% of the company's total revenue.

From a human resources perspective, green companies are also more attractive: more than 70% of Gen Z and millennial professionals prefer to work for companies that prioritize ESG criteria when choosing an employer. This provides

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green firms with the opportunity to reduce employee retention costs and attract top talent.

### 1-Table Impact of Green Investments on Financial Indicators (Based on International Studies)

Impact area	Average quantitative impact	Source
Energy costs	15–30% reduction	IEA, 2023
Cost of capital	0.3–0.7% lower	MSCI Research, 2022
Stock returns (10-year)	2.4% higher (ESG leaders)	Morningstar, 2023
Employee retention	25–40% improvement	Deloitte, 2022
Brand value growth	18–22% advantage	Interbrand, 2023
Credit rating	+1 position on average	Moody's ESG, 2023

#### 4. Limitations and critical evaluation

The cost–benefit analysis of green investments is not one-sided. A number of important limitations must also be acknowledged.

The first major limitation is the initial capital burden. Investing in green technologies often requires substantial upfront costs. For small and medium-sized enterprises, financing these expenditures can be difficult, especially when access to credit is limited. This issue is particularly relevant in developing economies, including Uzbekistan.

The second limitation is the time lag in observing financial outcomes. The effects of green investments often materialize over a 5–10 year horizon, which is less attractive for short-term investors focused on quarterly financial performance. As a result, corporate management may face difficulties in balancing shareholder expectations with long-term sustainability objectives.

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The third limitation is the risk of greenwashing. Some companies attempt to present an environmentally responsible image without implementing substantial green transformations. Regulatory bodies and consumers are increasingly strengthening scrutiny of such practices. In the European Union, the introduction of ESG reporting standards (CSRD) in 2023, along with stricter sanctions against greenwashing, has further intensified this risk. For companies in Uzbekistan as well, this issue remains highly relevant in the context of accessing export markets. The fourth limitation is the complexity of measurement and reporting. Proper ESG measurement and reporting is a costly and complex process that requires specialized personnel and systems, particularly for small enterprises. In addition, the diversity of reporting standards (GRI, SASB, TCFD, UN SDGs) complicates comparative analysis.

### **5. Green Investments in the Economy of Uzbekistan: Opportunities and Challenges**

The issue of green investments in Uzbekistan is becoming increasingly relevant not only from the perspective of alignment with global trends but also due to internal economic necessity. The country's "Green Economy" Strategy until 2030, as well as the target of increasing the share of renewable energy to 25% by 2030, is creating a new regulatory environment and new opportunities for companies.

From a financial opportunity perspective, Uzbekistan has access to several international financing mechanisms. The Asian Development Bank (ADB) and the World Bank are providing concessional loans for green projects in Uzbekistan. The International Finance Corporation (IFC) is also developing green financing instruments for private sector companies. In addition, Uzbekistan began establishing a regulatory framework for the development of a green bond market in 2021.

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From the perspective of constraints, companies in the country face several challenges: a shortage of qualified professionals in ESG standards, the high cost of importing green technologies, limited access to financing, and the still underdeveloped culture of ESG reporting. At the same time, the existence of large energy subsidies may reduce the relative economic attractiveness of investments in energy efficiency.

However, strategic analysis shows that for companies in Uzbekistan, the sector where green investments generate the highest financial benefits is export-oriented manufacturing. Compliance with ESG standards is increasingly becoming a mandatory requirement for accessing European markets and attracting foreign direct investment. This, in turn, allows export-oriented companies to view green investments not merely as a cost, but as a key to market entry.

### 6. Practical examples and case study analysis

Ørsted (Denmark) is one of the most prominent examples of successful green transformation from a financial perspective. Between 2012 and 2023, the company completely shifted from oil and gas operations to offshore wind energy. The results of this strategic reorientation are significant: the company's market capitalization increased from around \$10 billion in 2012 to over \$50 billion by 2023, while EBITDA margins rose from 15–18% during its oil and gas phase to 30–35% as a wind energy company. Today, Ørsted is the world's largest offshore wind energy operator and a key focus for ESG investors.

In the case of Tesla, the financial effectiveness of a green product line is even more evident. Unlike traditional automotive manufacturers, the company generates additional revenue from the sale of carbon credits. In 2022 alone, Tesla earned \$1.78 billion from carbon credit sales—more than the annual green investment spending of General Motors and Ford.

In the local context, the example of Uzbekistan's energy sector shows that private investment in a solar power plant in Navoi region typically reaches full

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profitability within 4–5 years after commissioning and generates stable financial flows over the following 20–25 years.

### 7. Conclusion and recommendations

The analysis conducted in this article confirms that green investments have a multifaceted positive impact on a company's financial stability. Through the reduction of operating costs, favorable financing conditions, effective risk management, and the growth of brand equity, green investments create measurable long-term financial advantages.

However, these benefits do not arise automatically. The financial effectiveness of green investments depends on three key conditions: first, strategic consistency—green investments must be aligned with the company's core business model and competitive strategy; second, transparency and reporting quality—the need for reliable measurement and communication of ESG indicators to investors; and third, long-term thinking—the full financial benefits of green investments typically materialize over a 5–10 year horizon.

For companies in Uzbekistan, the following practical recommendations can be proposed: actively explore and implement international ESG financing opportunities (ADB, IFC, green bonds); gradually introduce systems for collecting ESG data and reporting mechanisms; prioritize green areas that generate the highest financial returns first (such as energy efficiency and waste reduction); and begin aligning export strategies with ESG compliance requirements.

In conclusion, green investments have become an integral component of corporate financial stability in the 21st century. Falling behind this trend creates the risk of losing long-term competitiveness.

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