# GREEN FINANCE AND GREEN HUMAN RESOURCES MANAGEMENT

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## Abstract

Climate change influences many spheres of human activities, including the behavior of companies. For example, in Corporate Social Responsibility (CSR) approach. At the same time, finance and human resources became an important competitive factor for companies. Thus, a combination of these two factors broke into management practices such as Green Finance and Green Human Resources Management (GHRM).

Implementing Green Finance and Green HRM impacts an organization's overall performance in terms of its profitability, financial performance, corporate productivity, and market value hence making them an important aspect of research. The purpose of the paper is to deep dive into the existing studies on Green Finance and Green HRM. A number of studies revealed a positive impact whereas others showed a negative impact. The review identifies various instances where deeper analysis is possible, advantages and disadvantages, and showcases the gaps in the existing literature thus opening a gateway for further research and outcomes.

**Key Words: Green Finance, Green HRM, Firm Performance**

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## Introduction

The exploitation of natural resources has been witnessed during past centuries and intensified last decades. Moreover, the inefficient use of resources has led to serious outcomes in society. On the other side, it accelerated the awareness of environmental sustainability. The influence of human activities on climate change warned that climate change will worsen the existing risks. Due to the increased risks and awareness in the public, the business has shown a willingness to act against climate change and pledged to contribute to decreased carbon transmission. For example, in Corporate Social Responsibility (CSR) approach.

Although CSR concerns economic, social, and environmental aspects, this research solely focuses on the environmental aspect. Adopting green financing creates the ways for green economic recovery leading to green modernization, job creation, globalization, and a carbon-free economy. Growing awareness of sustainability and corporate social responsibility has led to an increased focus on the importance of green human resource management (green HRM). While finance is widely accepted as the lifeblood of business, human resources is positioned as the soul of business, especially in an environmental context. Even though green finance and green HRM have gained attention in the business environment, much of the previous work relates to particular importance, implementation, and various achievements. Still, no relationship between green finance and green HRM has been researched.

The article is divided into two sections. The first section discusses the state of green finance using the existing literature, the definition of green finance, green finance products, implementation challenges, solutions, and various dimensions. The second section presents the concept of green human resource management and its functions, barriers to implementation, and finally, how it contributes to the social sustainability of the organizations.

## Green finance

Green finance is defined as a financial innovation transitioning investments towards achieving climate goals, a low-carbon economy, and green structural changes (D'Orazio and Popoyan, 2019). The main aim of finance is to serve the economy. Green finance, as a part of sustainable development, aims to support environmental protection, energy conservation projects, economic development (Wang et al., 2021), transformation (Cui et al., 2020), and impact investing (Tang and Zhang, 2020). Contributing to developing the financial world, green finance opens alternative financial pathways for individuals, organizations, and governments to fund and invest in green projects and activities (Wang et al., 2021). The knowledge of green finance helps attract green investments mitigating carbon emission levels and increasing the interest of investors in green enterprises (Wang et al., 2021). Thus, the purpose of green finance is not only to finance green projects but also to work for the benefit of less carbon emission projects and risk management (Wang et al., 2021). According to a Forbes report (2023), green finance surpassed a market value of USD 540.6 billion in 2021, jumping from just USD 5.2 billion in 2012.

## Green finance classification

Green finance can be classified into three types: green bonds, green credits, and green asset finance.

Green bonds are a new class of financial solutions supporting investments in sustainable and climate-friendly projects helping organizations survive adverse situations (Tang & Zhang, 2020). Green bonds are issued by governmental entities, corporates, and other municipalities specifically for environment-friendly projects (Giafrante, 2019). Issuing green bonds is more expensive than conventional bonds as it involves external review, regular reporting, and impact investing assessment (Tang & Zhang, 2020). There are some common incentives for the green bond participants, such as lower debt costs, and reduced cost of capital for the issues, as organizations with better CSR performance can issue bonds at lower costs (Giafrante et al.,2019).

Green credits, the second product, is a financial policy and a financial tool implemented to induce banks to consider the environmental purpose of enterprises while applying for loans (Xu and Li, 2020). Green credit plays a vital role in promoting environment-friendly organizations and limiting polluting organizations by strengthening environmental governance on regulating the flow of capital to the organizations (Xu and Li, 2020). All organizations, whether profit or nonprofit, can apply for green credit as long as they require loans related to green projects. Green credits improve an organization's linkage between the financial and environmental sectors (Yao et al., 2021).

The third type of green financing, green asset finance, is an investment in which the assets aim to achieve suitability and reduce environmental challenges (Naeem et al., 2022). Investing in renewable energy, LED street lights and rooftop solar panels are some examples of green assets. Green assets have risk absorbance potential and can provide safety to investors during periods of distress. Green assets and the financial sector have a clear relationship regarding returns and volatility (Naeem et al., 2022). An escalation has been seen in the allocation to green asset finance from 10.3 Billion Euros to 328 billion Euros between 2013 and 2020 globally (Naeem et al., 2022).

## Green Finance and Organization Performance

Organizational performance is essential in evaluating profitability, corporate innovation, and development ability (Yao et al., 2021). With the increasing awareness of green finance, recent studies have summarized that long-term green investment in green finance can improve the organization's financial performance (Chen and Ma, 2021). Green bonds, help attract investors that value long-term and environment-friendly investments and promote the financial stability of an organization as green bonds generate a stronger stock market response in organizations with environment-friendly goals (Flammer, 2021). Stock prices positively react to the announcement of green bond issuance, further improving liquidity and institutional capacity (Tang & Zhang, 2019). The shift from traditional financial management to green financial management can maximize the economic, environmental, and social benefits and the strategic goal of an organization towards green financial development (Cui et al., 2020).

Although it has become crucial for organizations to actively participate in green activities to establish a green image and reputation and drive financial performance (Chen and Ma, 2021) organization performance is highly Impacted because of the various challenges faced during the implementation.

Literature has identified several challenges faced by organizations while implementing Green Finance. First, to successfully implement such projects, a deep understanding of finance and environmental economics are crucial to developing green finance (Tolliver et al., 2019). Second, a major concern is a need for more capacity and information about green investments and technologies among the major market players (government, investors, and financial institutions). Third, as the topic of green financing is still establishing, the need for borrower knowledge limits the funding opportunities for green projects (Tolliver et al., 2019). Fourth, green finance's success or failure differs from the perspective of short- and long-term investment. Fifth, the initial costs of project launch are high (Tolliver et al., 2019). Large-scale green projects, such as green energy projects, demand long-term investments, and the need for such investment hinders green development. Sixth, the rate of return on green investments is lower during the initial periods affecting the organization's financial performance, which in turn affects the manager's investment decision-making and drives off the organizations from green practices (Chen & Ma, 2021), especially in case of heavily polluting organizations, green credit policy decreases heavily polluting organizations' performance by increasing financing constraints and decreasing investment levels (Yao et al., 2021). The impact of green finance on financial performance varies according to the size, type, ownership, and geographical location (heterogeneity factors) (Siedschlag and Yan, 2023)

Thus, comparing the social advantages (environment) with individual challenges (lower organization performance for high-polluting organizations), the following research gaps were identified **:**

RESEARCH GAP 1: What motivates managers of high-polluting organizations to adopt green credit?

RESEARCH GAP 2: What factors positively influence the pollution decrease while implementing green finance?

## Green Human Resource Management

Green HRM is defined as a set of practices that focus on improving the employee's abilities to engage in actions toward environmental performance management and economic stability (Pailla et al.,2020). In addition to the achievement of economic stability and environmental safety, green HRM practices contribute to the sustainable needs of social equality, health, wellness, and well-being of an organization and its employees. Human resources establish the organization's strong base and motivate the organizations to invest in human capital to improve future aspects (Amrutha and Geetha, 2019). Green HRM enforces organizations to follow eco-friendly practices to minimize carbon tracks and create environment-friendly practices to meet long-term sustainability targets (Amrutha and Geetha, 2019).

### Green HRM and Organization Performance

Green HRM involves implementing policies for the betterment of the workforce. The policies are specifically designed to protect the organizational workforce for preserving the abundant knowledge capital through the best eco-friendly and cost-efficient ways (Amrutha and Geetha,2019). Green HRM promotes the source of employee motivation, satisfaction, and environmentalism (Amrutha and Geetha, 2019). Green HRM is implicated throughout the employee life cycle beginning from organizational hiring (Pailla et al., 2020) to employee retention

(Pailla et al., 2020). Green HR Implements the policies and practices in human resource management like recruitment, selection, training, appraisal, pay, compensation, rewards, and employee involvement to promote sustainable organizational performance (Amrutha and Geetha, 2019).

The first among the green human practices is green recruitment and selection, where the organization focuses on hiring individuals that value the organization's environmental goals and awareness. To imply green recruitment, the organizations need to create green awareness, promote green employer branding and create green job criteria to focus on individuals with a proven record of participating in green activities. Upon successful green recruitment and selection, the next step is introducing green training and environmental education. Organizations can introduce training and education programs to showcase the importance of green values to increase the eco-literacy level of the employees. Through training, the organizations establish new performance criteria and staff competencies (Pailla et al., 2020). To induce improved environmental performance and green employee involvement, organizations need to come up with specific initiatives for green performance management. The individual environmental performance of each employee portrays the collective organizational performance. The performance depends on the department or the employee's role and how they contribute towards green performance (Pailla et al., 2020). Organizations introduce green employee appraisal and rewards to promote green performance management (Amrutha and Geetha, 2019).

Green appraisal and rewards develop a sense of belonging and satisfaction among employees creating better employee performance (Amrutha and Geetha, 2019). Moreover, they develop green performance management systems, green leadership, educative, and drive a positive reinforcement atmosphere in the organizations. The appraisals educate the management and the employees on how to measure an organization's green performance, disclosing the best environmental practices being followed. Green approaches in performance management balance the financial and socio-environmental goals of multinational organizations. It is essential to motivate employees toward green performance efficacy and induce their involvement in green initiatives (Amrutha and Geetha, 2019).

Green HRM plays an important role in improving employee environment satisfaction, as job satisfaction depends on the degree the job expectations are fulfilled. Organizations' positive environmental performance is perceived to enhance job satisfaction, as it meets employees' environmental expectations as organizational staff (Pailla et al., 2020). Inducing employee involvement in green initiatives and environmental activities empowers the staff to generate ecological improvements and develop a culture that promotes environmental improvement plans and better job satisfaction (Pailla et al., 2020). Green-empowered employees have better knowledge of eco-initiatives (Amrutha and Geetha, 2019) and benefit forward-thinking organizations (Amrutha and Geetha, 2019).

**Challenges while Implementation of Green HRM**

Even though green HRM has become a topic of interest for organizations, there are some challenges while implementing green policies and practices in human resources. One of the major concerns is the doubt about the financial significance or the financial performance due to the green HRM practices. Although previous studies mentioned that the organization's performance gets better through improved employee satisfaction, retention, green training, and involvement. The managers of an organization examine financial benefits. While implementing green practices, the return rate is low whereas the cost of investment is high and various technological barriers, have proven to be a cause of concern for managers (Amrutha & Geetha, 2019).

Another challenge relates to stakeholders' interests, as their interest is one of the critical aspects of determining the policies and practices designed for an organization. Adding on the new policies and practices usually increases the responsibilities of the stakeholders, which is why they need more interest in green HRM practices (Amrutha &Geetha, 2019).

In addition, government interventions, regional rules and regulations, and trade unions influence the implementation of green human resources practices. In countries with strict rules and regulations, trade unions and their institutional powers perceive green practices to gain more power for the managers to influence the management practices and employees of an organization towards green behavior and organization social sustainability, whereas in countries with lenient rules and regulations trade unions lack the power to shape the CSR agenda.

Thus from the mentioned challenges following research gaps were identified:-

RESEARCH GAP 3: How the initial investments can be utilized while implementing green practices for long-term economic benefits?

RESEARCH GAP 4: How the responsibilities of stakeholders can be maintained while implementing green HRM policies and practices?

## Does environmental awareness affect the collaboration of departments in organizations?

Interdepartmental collaboration boosts the understanding of new information and policies, spreading knowledge and awareness across business units (Guillen et al., 2019). For any organization to grow and sustain, a collaboration of departments has been proven to be an important aspect. We see an ample amount of literature published on different positive and negative outcomes of interdepartmental collaboration. Still, more research needs to be conducted concerning the specifics of the collaboration between the finance and human resource department. The main activities of the HRM are to conduct recruitment, create and implement policies, provide employee training, and maintain employee satisfaction. All these factors are considered an expense from the financial perspective. Implementing the wrong policies or hiring bad candidates costs time, energy, and money, which in turn impacts the financial performance of organizations (Guillen et al., 2019). The HRM and finance collaboration can be used to analyze the organizational strategic mission and vision and long-term goals.

Individual studies have been conducted on green bonds, green credits, and green investments to understand their impact on an organization's performance (Yao et al., 2021) whereas limited literature is available concerning the collaborative impact of Green HRM and Green finance on the financial performance of an organization. In order to understand the impact it is important to first study if the strategic alliance approach of HRM and Finance changes due to environmental awareness.

The literature thus opens the prospects for future studies in the following areas:

RESEARCH GAP 5: How does environmental awareness change the strategic approach of interdepartmental collaboration between HR and finance departments?

RESEARCH GAP 6: How do green finance and green HRM impact the financial performance of an organization?

## Conclusion

Through this literature review, the importance and significance of green finance and green human resource management are clearly visible. While there are various advantages of implementing both of these phenomena, certain disadvantages also come to light. While both phenomena have been studied extensively individually, there is less visibility of their collaborative nature. When organizations go through a green transition, multiple departments are affected, and their way of working together also changes hence making it an important aspect to study for future research.

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