GE-International Journal of Management Research
ISSN (O): (2321-1709), ISSN (P): (2394-4226)
Vol. 14, Issue 02, Feb 2026 Impact Factor: 8.466

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Innovation in Finance and Business as a Catalyst for Sustainability: A Conceptual Review with Evidence from India

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Abstract

Innovation in finance and business is increasingly recognized as a key enabler of sustainability, particularly within emerging economies such as India. This paper presents a conceptual and systematic review of the literature to examine how financial innovation, business model innovation, and sustainability-oriented strategies interact to create long-term economic, social, and environmental value. Drawing on recent peer-reviewed studies and policy reports, the review identifies major themes including fintech-enabled financial inclusion, digital transformation of business models, and the expanding role of green finance and ESG integration in the Indian context. The paper contributes to the literature by proposing an integrated conceptual framework that connects innovation in finance and business with sustainability outcomes in an emerging-market setting. The findings offer relevant theoretical insights and practical implications for policymakers, financial institutions, and business leaders.

Keywords: Financial innovation, Business innovation, Sustainability, Fintech, ESG, India

1. Introduction

Innovation is widely regarded as a key driver of economic growth and competitiveness. In recent years, its role has expanded beyond productivity and profitability to encompass sustainability objectives. Global challenges such as climate change, resource scarcity, and social inequality have increased pressure on financial systems and businesses to adopt sustainable practices. Consequently, innovation in finance and business is increasingly aligned with environmental, social, and governance (ESG) considerations.

India provides a compelling context for examining this relationship. Rapid digitalization, a large emerging consumer base, and strong policy initiatives such as Digital India and Startup India and National Digital Financial Infrastructure have accelerated innovation across sectors. At the same time,

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India faces pressing sustainability challenges related to energy transition, financial inclusion, and inclusive growth. Despite growing scholarly interest, integrated studies examining the interaction between financial innovation, business innovation, and sustainability in emerging economies remain limited. This paper addresses this gap through a conceptual review with a focus on India.

2. Literature Review

2.1 Innovation and Economic Development

Classical innovation theory emphasizes the role of innovation in driving economic development through new products, processes, and markets. Schumpeter's concept of creative destruction explains how innovation reshapes industries and competitive structures. Subsequent literature highlights the role of financial systems in enabling innovation by mobilizing capital and managing risk (Merton, 1992). In emerging economies such as India, innovation is increasingly shaped by digital infrastructure and institutional reforms that support scale, inclusion, and efficiency.

2.2 Financial Innovation and Sustainability

Recent studies highlight the growing importance of financial innovation in supporting sustainable development. Fintech-driven solutions enhance efficiency, transparency, and accessibility within financial systems, particularly in emerging economies (Ha et al., 2024). In India, digital public infrastructure has enabled large-scale financial innovation through platforms such as the Unified Payments Interface (UPI), Aadhaar-based digital identity, and the Account Aggregator framework.

These innovations have significantly expanded access to formal financial services for low-income households, micro-entrepreneurs, and small businesses, thereby advancing social sustainability through financial inclusion. Green finance instruments such as green bonds and sustainability-linked loans further mobilize capital toward environmentally responsible projects while improving firms' risk profiles and investor confidence (Tang & Zhang, 2020). While much of the ESG–performance literature focuses on developed markets, India's experience demonstrates how financial innovation can simultaneously support inclusion and sustainability objectives.

2.3 Business Innovation and Sustainable Value Creation

Business innovation plays a crucial role in embedding sustainability within firm strategies. The concept of shared value suggests that firms can simultaneously achieve economic success and social progress

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(Porter & Kramer, 2011). In the Indian context, sustainability-driven business innovation is often shaped by regulatory requirements, resource constraints, and stakeholder expectations.

Empirical studies indicate that organizations adopting sustainability-oriented business models often experience improved competitiveness and resilience (Zhang et al., 2022). Indian firms, particularly in information technology, manufacturing, and energy-intensive sectors, increasingly integrate ESG considerations into digital transformation, supply-chain innovation, and governance practices. However, the literature continues to highlight a lack of integrated frameworks connecting business innovation with sustainable finance in emerging markets such as India.

3. Methodology

This study adopts a systematic literature review and conceptual analysis approach. Peer-reviewed journal articles were identified using databases such as Scopus, Web of Science, and Google Scholar. The search focused on publications between 2014 and 2024 using keywords including “financial innovation,” “business innovation,” “sustainability,” “ESG,” and “India.” Only English-language, peer-reviewed sources were included. In addition, policy documents and reports issued by Indian regulatory institutions were reviewed to contextualize the findings. The selected studies were analysed thematically to identify dominant trends, research gaps, and conceptual linkages.

4. Innovation in Finance in India

Financial innovation in India has been driven primarily by digital technologies and public digital infrastructure. The Unified Payments Interface (UPI) has transformed retail payments by enabling real-time, low-cost transactions at scale, making India one of the world’s largest digital payments ecosystems. This transformation has reduced transaction costs, improved transparency, and expanded access to formal financial services.

Complementary initiatives such as the Pradhan Mantri Jan Dhan Yojana and Aadhaar-enabled services have facilitated the inclusion of previously unbanked populations into the formal financial system. Fintech platforms offering digital lending, insurance, and investment services have further expanded access to financial products for micro, small, and medium enterprises (MSMEs). Empirical evidence suggests that such fintech adoption contributes positively to financial inclusion and sustainable development outcomes (Ha et al., 2024). Regulatory innovation, including the Reserve Bank of India’s regulatory sandbox and the adoption of regulatory technology (RegTech), plays a critical role in balancing innovation with financial stability.

5. Innovation in Business in India

Indian businesses increasingly adopt digital and platform-based business models to enhance efficiency and scalability. Sectors such as e-commerce, financial services, information technology, and mobility services illustrate how innovation reshapes value creation and delivery in India. Large conglomerates and technology firms have invested heavily in digital transformation, data analytics, and platform ecosystems to remain competitive in rapidly evolving markets.

Sustainability considerations are becoming more common in business innovation strategies. Leading Indian companies, especially in the information technology and manufacturing industries, are making commitments to use renewable energy, implement sustainable supply chain practices, and improve their ESG (Environmental, Social, and Governance) governance structures. Investments in solar and wind energy, resource-efficient production methods, and circular economy initiatives show a move from focusing only on short-term cost savings to creating long-term sustainable value.

6. Integrating Innovation and Sustainability

6.1 Green Finance and ESG Integration

Sustainable finance tools such as green bonds, sustainability-linked loans, and impact investing are crucial in aligning financial systems with sustainability goals. In India, the launch of sovereign green bonds and the fast-growing issuance of corporate green bonds have helped fund investments in renewable energy, sustainable infrastructure, and climate-resilient development. Research shows that issuing green bonds is linked to positive market reactions and environmental benefits (Tang & Zhang, 2020).

In addition, regulatory efforts like the Securities and Exchange Board of India's mandatory Business Responsibility and Sustainability Reporting (BRSR) framework have helped integrate ESG considerations into Indian firms. These measures increase transparency, build investor confidence, and encourage companies to consider sustainability in their strategic and financial decisions.

6.2 Innovation, Inclusion, and ESG Outcomes

Digital financial innovation improves ESG outcomes by increasing financial inclusion, reducing information gaps, and enabling better sustainable investment choices (Zairis et al., 2024).

In India, fintech-driven credit scoring, digital payments, and data-sharing systems have expanded access to financial services for underserved groups and small and medium enterprises (MSMEs), contributing to inclusive economic growth.

Business innovation supports this by including environmental and social goals in value creation strategies. Green finance initiatives strengthen the connection between innovation and sustainability by directing capital toward ecologically responsible activities, thus supporting positive ESG results in different sectors (Raman et al., 2024).

6.3 Conceptual Framework

Based on a review of existing literature, this study introduces a comprehensive conceptual framework that links innovation in finance and business with sustainability outcomes in emerging economies. Financial innovation (such as fintech, digital payments, and green finance) and business innovation (like digital business models, process improvements, and organizational flexibility) are the main factors influencing sustainability outcomes, including environmental protection, social inclusion, and long-term economic stability. Supportive policies, digital public infrastructure, and strong institutions act as key conditions that support these relationships in the Indian context.

7. Discussion and Implications

The results highlight the importance of coordinated innovation in both finance and business to reach sustainability targets in India. For policymakers, on-going investment in digital infrastructure, supportive regulations, and sustainable finance mechanisms is crucial. Clear regulations and institutional support can further improve the impact of innovation on sustainability outcomes. For businesses and financial institutions, integrating ESG factors into innovation plans can boost resilience, risk management, and long-term competitiveness.

The study also points out research gaps, particularly the need for more empirical studies that explore the cause-and-effect relationships between innovation and sustainability outcomes in emerging economies like India.

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8. Conclusion

Innovation in finance and business is vital for advancing sustainability goals in emerging economies such as India. The review shows that digital financial technologies, new business models, and sustainable finance tools together support inclusive growth, environmental responsibility, and long-term economic strength. By combining insights from finance, business, and sustainability research, this paper emphasizes the importance of coordinated innovation strategies supported by effective policies and regulations.

The study contributes to existing knowledge by providing an integrated framework that explains how financial innovation, business innovation, and sustainability outcomes are connected in an emerging-market context. While the analysis is theoretical, it sets the foundation for future empirical studies. For policymakers and practitioners, the findings stress the need to align innovation efforts with sustainability goals to drive resilient and inclusive development.

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