Editorial: Driving impact through responsible investing and finance

Editorial

Background

In recent times, we have seen significant developments in responsible investing. Firstly, the uptake of environmental, social and governance (ESG) criteria in finance and business in general has seen unprecedented acceleration (Fink, 2021). Once considered a "niche" strategy, ESG adoption is now widespread and mainstream (Edmans, 2022). A total of 4,902 investors managing $121.3tn had signed the Principles for Responsible Investment by the first quarter of 2022.

The growth of responsible investing was influenced by the 2030 Agenda and the United Nations Sustainable Development Goals (SDGs) and, in particular, the Paris Agreement that led to commitments to align financial flows with the goal of limiting global warming to 1.5°C. In the EU context, the European Green Deal (European Commission, 2019) and the EU Sustainable Finance Taxonomy (European Parliament and the Council of the European Union, 2020), building on the previous EU Action Plan on Sustainable Finance (European Commission, 2018), have promoted an ambitious package of measures.

Over the past year, the impacts of the Covid-19 pandemic further exposed the dire need for investments supporting a resilient economy and society. Public recovery programmes such as the Recovery Plan of Europe (Council of the European Union, 2020a, 2020b) or the American Rescue Plan (Tankersley and Crowley, 2021) have been impressive; however, the scale of the investment challenge calls for the financial sector to step up, take responsibility and reorient investments to incentivize sustainable business practices, low-carbon and circular solutions and societal well-being.

At the same time, data collection and corporate reporting transparency challenges remain, and investors still find it difficult to direct funding to companies which represent good investments in the long-term – for both shareholders and society. Areas of concern are, for example, risks of greenwashing, potential exclusion of companies at the early stage of sustainability transitions and the reporting costs for small and medium sized companies. The role of investors and their accountability has also raised social justice and equity concerns (Parsa, 2021), and calls to ensure that sustainability issues are not instrumentalized for pure financial interests, but have real-world positive impact on the safety and well-being of all.

Academic evidence in the area of responsible investing is increasing, yet its dissemination and impact on real-world investing practices remains fairly limited. Advancing this agenda requires collaboration of both academics and investors, as well as policymakers. This Special Issue (SI) aims to strengthen the dialogue between practitioners and academics about theoretical and practical challenges on enhancing positive business impact on society through responsible investing through:

- understanding the state of the art;
- explaining existing practices and developments in the field;
- uncovering patterns and risks; and
- exploring multidisciplinary perspectives.

The *Sustainability Accounting, Management and Policy Journal* was the most suitable journal for this SI, as its aim is to bring together research from a range of disciplinary

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approaches to address social and environmental sustainability challenges, seeking to contribute to practical and policy solutions to improve the impact of organizations and societies on sustainable development. As such, it was a great avenue to welcome research focusing on the ESG and responsible investing.

The SI showcases developments and best practices of businesses, corporations and investment and asset management industry on responsible investing and ESG approaches. The SI shows a rich collection of papers on this area rapidly growing in importance, and it contributes to five broad dimensions of the academic literature and practice on sustainable and responsible finance that we have identified:

- ESG investment performance compared to non-ESG or low-ESG;
- ESG-related developments (including regulatory);
- ESG engagement strategies;
- ESG investing and risk management; and
- responsible investing, sustainability reporting and the SDGs.

The papers included in the SI contribute to the existing body of knowledge by providing justifications and incentives to apply more responsible business and financial models as well as recommended course of actions and policy implications. While a direct causal relationship between increased investment in ESG practices and improved financial performance is not always apparent, especially in the shorter run (in line with previous rather ambiguous evidence on ESG investing, e.g. Matos, 2020), the majority of the papers included in the SI make the case for an expanded role of the financial sector in supporting the sustainability transition (Sood *et al.*, 2023). Financial markets, by engaging in responsible investments and ESG approaches, can accelerate progress towards sustainable development, and industries such as asset management are considered critical in this process (Folqué *et al.*, 2023). As shareholders, they can have an active role in supporting business to transition to more sustainable practices and companies are thus likely to experience more pressure to change (Viviers and Steenkamp, 2023). As exposed in one of the papers, there is already a shift in the financial community towards allocating capital to impact on the real economy (Diener, 2023).

As the SI started to come together between the turbulent times of the Covid-19 pandemic, a sample of papers also cover the impact of Covid-19 and other socio-economic developments (Sood *et al.*, 2023). Overall, the authors share the perspective that the financial sector has a key role in achieving the UN SDGs and calls for concerted effort in developing ESG strategies, responsible investing approaches and regulatory frameworks to invest for the benefit of people, communities and society as a whole.

In terms of geographical reach, the papers offer nearly global coverage, as the countries represented by the papers' authors cover European countries, as well as sub-Saharan African countries, India and ASEAN countries. While examples from Latin America, Middle Eastern countries, China or Russia are missing, the SI papers do provide signs that across the globe we can observe the growth of responsible investing and ESG adoption in finance and business.

Overall, the SI shows a need to develop further knowledge and insights on the topic of responsible investing, both in terms of implications for academic research and practically implementable recommendations. The papers in this SI suggest a large number of avenues for further work. For instance, one avenue that strongly emerges from the wide geographical coverage of the SI is the need for more situational research, which involves studying specific socio-economic, political and cultural contexts and their impact on ESG strategies, performance and risk management. The papers also suggest another avenue in terms of analysing the developments and shifts in the discourse around responsible investing or more specific subtopics such as socially responsible investing (SRI), by using a variety of methods, including more qualitative and multidisciplinary ones. Lastly, given the importance of the topic for management education and practice, another interesting avenue to consider might be the investigating practices and effects of integrating responsible investing in management education (Edmans, 2022).

Our hope as editors is that this SI will generate a lot of interest as well as great future work on this key subject.

Summary of the papers appearing in the Special Issue

Within the first dimension *ESG investment performance compared to non-ESG or low-ESG*, Sood *et al.* (2023) empirically examine the performance of high-ESG portfolio *vis-à-vis* low-ESG portfolio at the stock market of India pre and during the Covid-19 pandemic in their paper titled "Did ESG portfolio augment investors' wealth during Covid-19? Evidence from Indian stock market". Even though the authors concluded that the performance of high-ESG and low-ESG stock portfolios did not differ significantly during the Covid-19 and pre-Covid-19 periods, the study emphasized the need to expand the role of ESG investment in India for the benefit of people, communities and society as a whole.

Adeneye *et al.* (2023) provide an additional perspective on ESG performance and capital structure. In their paper titled "Capital structure and speed of adjustment: the impact of environmental, social, and governance (ESG) performance", they examine the effect of sustainable practices as proxied by the ESG score on capital structure. The authors also investigate whether ESG performance influences the speed of adjustment to target leverage in firms. The study, based on 116 non-financial firms listed on the main stock exchanges from five Southeast ASEAN countries, concludes that sustainable practices induce a higher debt capital, as the results show that ESG score is positively associated with book leverage, however ESG score is negatively associated with market leverage. The results also show that firms reach faster to their target leverage in the presence of ESG performance. The paper provides with combined advantages to both stakeholders and directors who monitor and manage the firms' resources to improve the quality of ESG practices and initiatives.

Linked to this first dimension, the paper by Martins *et al.* (2023) on "Is foreign direct investment caring for sustainability? A look in African sub-Saharan countries" investigates and adds an additional perspective on the relationship between FDI and sustainability in the sub-Saharan countries with lower income. The main objective of the paper is to understand if FDI effectively influences the triple bottom line (TBL) pillars of sustainability. The results show a positive and significant correlation between the TBL pillars with the highest correlation being between the environmental and economic pillars; however, FDI has no significant influence on the TBL pillars.

Regarding the second dimension we identify, *ESG-related developments*, the paper by Diener (2023) outlines key advancements in responsible investing in his paper on "Impact case or impact washing? An analysis of investors' strategies to influence corporate behavior". In particular, the author investigates how the perspective in the SRI industry has shifted from avoidance to impact. The author also presents a best practice example of a bank that applies a sophisticated engagement strategy. In the study, severe differences in the effects of exclusion, positive approaches and shareholder engagement are identified and discussed.

Diener's paper also gives a direct empirical contribution to the dimension of *ESG engagement strategies*. Another paper that provides original insights on this aspect is

Viviers and Steenkamp's (2023) on "Shareholder-initiated environmental and energy resolutions: too little too late?". The paper considers macro-level antecedents of environmental and energy (E&E) shareholder activism in order to yield a better understanding of E&E shareholder activism by highlighting the importance of the rule of law. The evidence shows that the E&E social movement is gaining momentum in the 12 considered developed countries. Companies are thus likely to experience more pressure from shareholder activists in future. On the other hand, the E&E resolutions received on average very little voting support, making them seldom effective.

The *ESG investing and risk management* dimension is addressed by the papers by Cagli *et al.* (2023). In their paper "Environmental, social, and governance (ESG) investing and commodities: dynamic connectedness and risk management strategies", Cagli *et al.* (2023) explore the dynamic connectedness and volatility spillovers between commodities and corporations exhibiting the best ESG practices. This study provides implications for policymakers focusing on the risk of contagion among the commodity and ESG markets during turbulent periods to ensure international financial stability.

Lastly, the paper "Contribution of sustainable investment to sustainable development within the framework of the SDGs: the role of the asset management industry" written by Folqué *et al.* (2023) covers a broader dimension of *Responsible investing, sustainability reporting and the SDGs*. It focuses on how the financial market, through sustainable investment, contributes to sustainable development, within the framework of the SDGs, by defining advanced socially responsible investment practices under the new global challenges. Based on a systematic literature review, the result showcase that the asset management industry is critical for integrating SDGs in the financial markets, whether through their influence in the investee companies or their investment products.

Ivo Matser
ABIS – The Academy of Business in Society, Brussels, Belgium
Joan Fontrodona
Business Ethics Department, IESE Business School, Barcelona, Spain, and
Luk Van Wassenhove
Technology and Operations Management, INSEAD, Fontainebleau, France

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Further reading

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