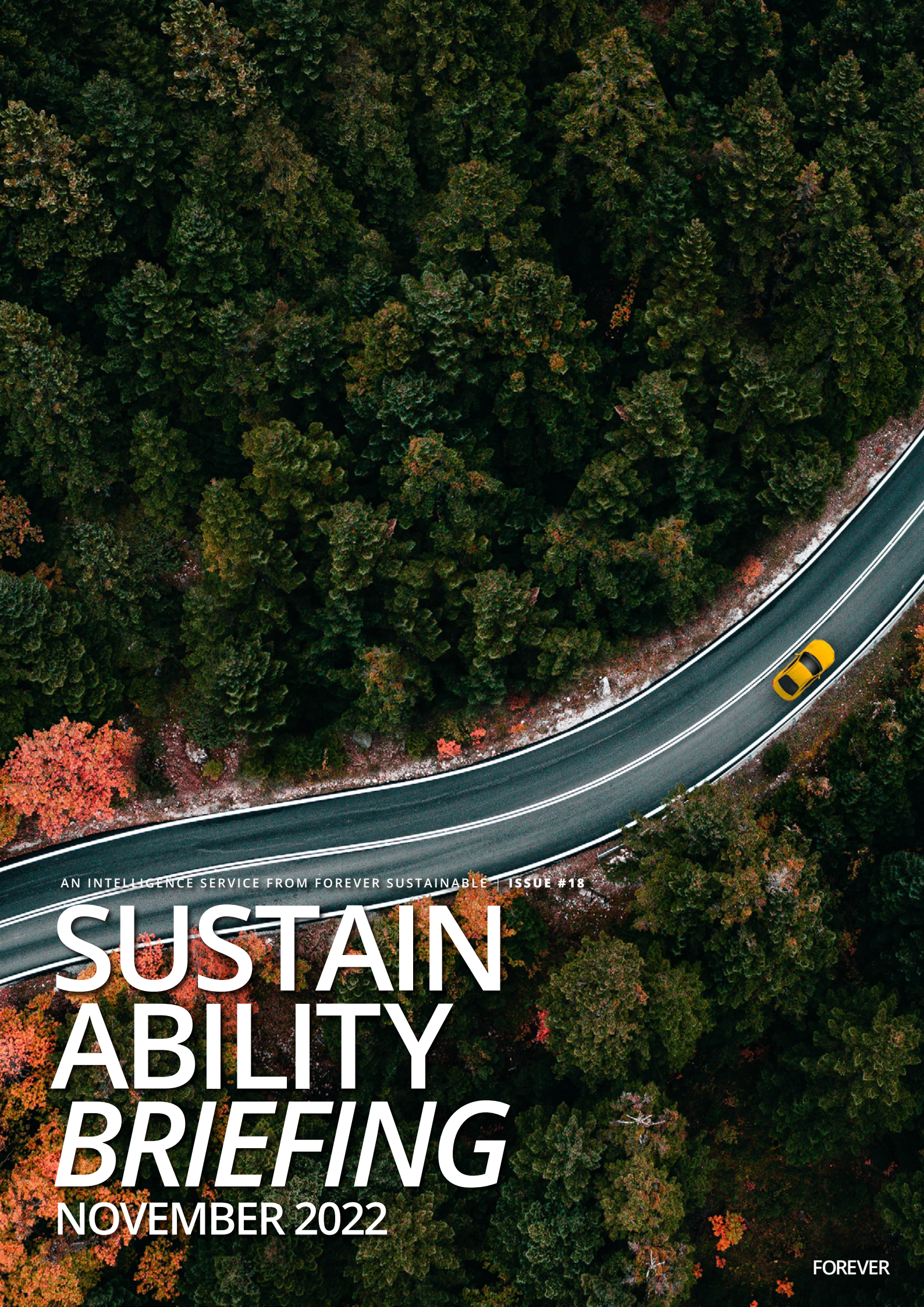


An aerial photograph of a winding asphalt road cutting through a dense forest. The trees are mostly green, with some showing autumnal colors of orange and red. A small yellow car is driving on the road, moving away from the viewer. The road has white lane markings.

AN INTELLIGENCE SERVICE FROM FOREVER SUSTAINABLE | ISSUE #18

SUSTAIN ABILITY *BRIEFING*

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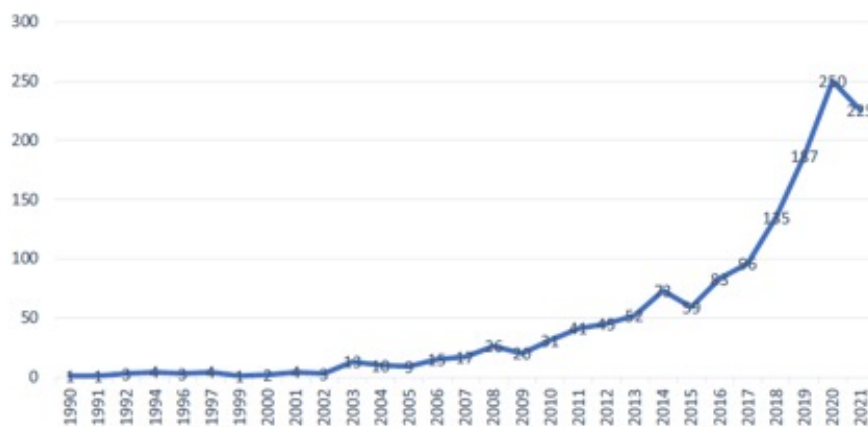
Influencers in Sustainable Finance

»» A BOOK CHAPTER in a newly published book give some guidance on who to follow for new research on Sustainable Finance. The two most productive researchers in the field are both from Canada; Olaf Weber from the University of Waterloo with 23 articles published and Benjamin Richardsson from University of British Columbia with 12 articles. On third place we find Friedermann Polzin from Utrecht University in the Netherlands. Overall, most articles are published by researchers in Canada, Holland and Greece.

The study also gives guidance on which academic journals to follow to stay updated. The most popular outlets for research in the field are "Journal of Sustainable Finance and Investment", "Sustainability" and "Journal of Cleaner Production". Also "Business Strategy and the Environment" and "Journal of Business Ethics" can be added to the field.

The study is published in "Handbook of Research on Global Aspects of Sustainable Finance in Times of Crises" which give an broad overview of the field. ■

Figure 1 .
Annual scientific production in *sustainable finance*



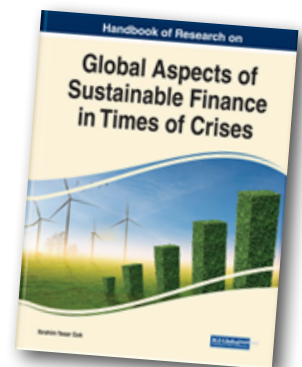
Increasing academical research on sustainable finance

»» **ACADEMICS ARE** increasingly using their time to do research in sustainability connected to the financial markets. There is a sharp increase in the number of articles on sustainable finance published in academical journals during the years 1990-2021. The peak was in 2020 when 250 articles were published during one year only. This is to compare with ten years ago when there were 10-20 articles per year published. Hence a tenth fold higher interest today compared to earlier. The most

common topics are socially responsible investments, green finance and climate finance. According to the authors of the study the main reasons behind the development is the growing attention of policymakers, governments and regulation authorities towards climate change and global warming. ■



SOURCE: Directions of green and sustainable finance: a bibliometric analysis | Emerald Insight
<https://www.emerald.com/insight/content/doi/10.1108/QRFM-10-2021-0174/full/html>



SOURCE: Handbook of Research on Global Aspects of Sustainable Finance in Times of Crises: 9781799885016: Business & Management Books | IGI Global (igi-global.com)
<https://www.igi-global.com/book/handbook-research-global-aspects-sustainable/271272>

ESG as "A BROKEN IDEA"

»» IN A MAJOR attack on the ESG community the magazine The Economist claim that "ESG is a broken idea". They argue that the impact of the ESG strategies is hard to measure when it comes to climate, social issues and governance. Companies with high ESG ratings is criticized for having for example higher carbon emissions than peers, breaching labor laws or being fined for corporate misconduct. It is vague which companies should

be regarded as leaders in sustainability and different actors give companies different ESG-gradings. One explanation given is poor ESG data from companies. Another is that "win-win" arguments often miss out on hidden trade offs between profit and planet. ESG funds are said to be much more expensive and the whole development is accused of mainly being a new way to make money for the actors in the financial markets, rather than increasing

ESG impact. The raid by the police on Deutsche Bank in Frankfurt on the claims of illegal greenwashing of ESG is mentioned as another example on "the broken idea of ESG". ■



SOURCE: ESG investing | Jul 23rd 2022 | The Economist
<https://www.economist.com/special-report/2022-07-23>

Lower valuation for high carbon companies

»» **FINANCIAL MARKETS** discount companies with high carbon emissions since these companies have higher levels of political and regulatory risk. Also, the companies are getting a higher cost of capital. These are findings in a study on how corporate GHG emissions have affected the P/E ratios of listed companies during 2016 to 2020, made by professors at Imperial College in London in cooperation with Lazard.

Researchers state that the main implication of climate-risk management by investors is that the companies with greater carbon emissions will have to pay a higher financial cost of carbon. Investors will seek to hedge climate change risk by reducing their exposure to this risk and demand compensation for holding the risk. Price-earnings ratios are generally lower for companies with higher emissions, the study shows, but with signi-

ficantly higher discounts in industries in Europe that are directly concerned by EU regulation. ■



SOURCE: The Financial Cost of Carbon - Bolton - 2022 - Journal of Applied Corporate Finance - Wiley Online Library (oru.se) <https://login.db.ub.oru.se/login?qurl=https://onlinelibrary.wiley.com/doi/10.1111/jacf.12502>

Polarization behind the ESG criticism

»» **THE INFLUENTIAL** professor Robert Eccles at Harvard and Oxford sees the criticism of “ESG is broken” as a reaction to the increased polarization of views on ESG, mainly in the US. He gives his views in an interview in the magazine “Management scope”. He claims that Republicans are driving a critical agenda towards ESG and that “red states attack investors on ESG claims”. Eccles (himself a democrat)

state that “ESG is seen as a war on American energy companies”. To ease the conflict he has laid out a typography of: the Sustainability Taliban (hates ESG), the Flat-Earthers (climate deniers), the Advocates (ESG believers) and the Pragmatist. He sees the solution in his own position: The Pragmatist, who are looking for a reasonable alternative in response to the polarization. ■

The Sustainability Taliban	Thinks that actors in financial markets are only concerned with making money through ESG, not with improving the world. Efforts never go far enough for them: they always want more including government intervention.
The Flat-Earthers	Do not believe in climate change and thinks that via ESG, companies will earn less money. ESG threatens profitability, will destroy American business, and cost jobs.
Sustainability Advocates	Believe in ESG and stakeholder capitalism. They present ESG as a silver bullet and thinks that you can make more money with ESG and improve the world at the same time.
Pragmatist	Has a double materiality view and recognize both that climate risks can negatively affect the value of the company at the same time as recognizing the negative effects that a company can have on the external environment.



SOURCE: Robert Eccles: “In the US, ESG is fully politicized” (managementscope.nl) <https://managementscope.nl/en/magazine/article/5278-robert-eccles-esg-politicized>



Female managers
benefit company
financial position

»» **AN INCREASED NUMBER** of female managers in a firm improves the company position within sustainable finance. There is a clear impact of the enhancement of women in decision-making positions when it comes to financial performance and attractiveness among investors. Researchers show in a new study that an increase in gender equality has a positive effect both on a firm’s financial performance and on its share of sustainable investments. The study builds on data from Bloomberg during 2020 and covers European companies. The Italian researchers from the university of Pavia find that companies with higher number of female directors have a lower cost of debt and a higher credit rating. Also, the higher number of female directors, the higher the share of sustainable investments. ■



SOURCE: Are ESG Female? The Hidden Benefits of Female Presence on Sustainable Finance | Review of Economic Analysis (uwaterloo.ca) <https://openjournals.uwaterloo.ca/index.php/rofea/article/view/5005>



Trump worsen ESG in small firms

»» COMPANIES IN CITIES where Donald Trump held campaign speeches during last election did significantly decrease their work with ESG after the speeches. Researchers have studied what happened among local business where Trump gave controversial and inflammatory remarks on E&S issues. The local firms performance on environmental and social issues decreased significantly in the year following the presidential campaign

rally compared with firms in other geographic areas where there was no campaign event. The reason is a shift in norms locally due to Trump, the researchers conclude. ■



SOURCE: When the Presidential Candidate Comes to Town: The Impact of Donald J. Trump's Campaign Rallies on Local Firms' Environmental and Social Performance | SpringerLink
<https://link.springer.com/article/10.1007/s10551-022-05212-z>

CSR

Socially responsible hedge funds drive CSR in targets

»» IN A STUDY in the Journal of Business Ethics it is discussed what happens to firms being targeted by hedge funds in the financial markets. The study shows a strong positive association between the target firm's CSR and its probability of being targeted by a hedge fund. Hence, it seems that firms with a high CSR performance are more likely to be targeted. If they do so by a hedge fund that claims to be socially responsible the target companies CSR increase the following years. But when non-socially responsible hedge funds target a firm there is a *decrease* of CSR performance in the target company. However, in both cases, researchers find that target firms get a long-term improvement in future stock returns and profitability after being targeted by a hedge fund. ■



SOURCE: Can Green Investments Increase Your Green? Evidence from Social Hedge Fund Activists | SpringerLink
<https://link.springer.com/article/10.1007/s10551-022-05230-x>



News

Lack of criticism among financial journalists

»» JOURNALISTS COVERING sustainable finance mainly take on “a role of a chronicler, informant and educator” but “fail to fulfil an active watchdog role”. This is stated in a new academic article in the journal *Journalism* building on 33 in depth interviews with journalists in six European countries. The coverage is

mainly event-driven and directed at a financial elite rather than critical from a societal perspective. Hence, journalists experienced a moral dilemma, to report on a relevant growing trend with many of press releases and PR-activities from actors in the financial markets without being a tool for greenwashing. ■



SOURCE: Covering sustainable finance: Role perceptions, journalistic practices and moral dilemmas (sagepub.com)
<https://journals.sagepub.com/doi/pdf/10.1177/14648849211001784>

Defence and weapons **do not belong** in ESG funds

»»» **THE IDEA THAT** companies in the defence industry can be included in ESG indices is rejected by scholars in an article in Journal of Sustainable Finance and Investment. After the Ukraine war, actors in the financial markets started to include companies in the defence industry like SAAB in such indices with the argument that they protect democracy against dictatorships. There are several reasons why defensive weapons can never be classified as an acceptable asset to invest in. Among other things, weapons cause harm to physical and mental health, destroy gender equality, creates water scarcity and threatens food security, the authors Amar Causevic Swedish Environmental Institute, Sasja Beslic SDG Impact Japan and Sara Causevic from the Karolinska Institute write. ■



SOURCE: Full article: Quo vadis sustainable finance: Why defensive weapons should never be classified as an ESG investment <https://www.tandfonline.com/doi/full/10.1080/20430795.2022.2135965?src=>

The divergence of ESG ratings

»»» **IT IS A WELL-KNOWN** fact that ESG ratings from different agencies tend to have low correlations. In a paper from MIT Sloan and University of Zürich, the divergence of environmental, social, and governance ratings based on data from six prominent rating agencies is investigated. The divergence is decomposed into three sources: scope, measurement, and weights. The authors find that scope and measurement are the main drivers, while weights are less important. They

also detect a rater effect where a rater's overall view of a firm influences the assessment of specific categories. The authors claim that their methodology improves investors' and firms' decision making by detecting where the divergence comes from and offer avenues to resolve it. ■



SOURCE: AggregateConfusion_TheDivergenceOfE_preview.pdf

ABOUT US

FOREVER SUSTAINABLE

We are a Scandinavian hybrid consultancy and think tank focusing on sustainable business and Shared Value.

SUSTAINABLE BUSINESS QUARTERLY REPORT

An intelligence service for executives engaged in sustainability, CSR and the future of business.

IN COOPERATION WITH:

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FOREVER

Forever Sustainable Business Nordic AB
Norrskén House
Birger Jarlgatan 57C
113 56 Stockholm SWEDEN

www.foreversustainable.se
info@foreversustainable.se

SUBSCRIBE

info@foreversustainable.se