Can Financial Markets Promote Sustainable Companies?

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Abstract

Can socially responsible investment (SRI) govern the market, and steer the financial economy towards sustainability? Traditionally, the financial economy has been largely ignored by environmental regulators and activists, who have focused on controlling environmental impacts of the real economy, especially those of business corporations. The dramatic growth of the SRI sector in the past decade, accompanied by some regulatory measures, has for some raised hopes that environmental law may have gained an invaluable new means of influence. However, the growth of SRI has to some extent come at the expense of its quality; the SRI movement has become increasingly preoccupied with how sustainability might contribute to investment value, rather than how financial investment might contribute to sustainability. That instrumental profit-focus is partly a consequence of how institutional investors understand their fiduciary duties. The SRI sector's own codes of conduct including the UN Principles for Responsible Investment have yet to demonstrate the robustness to move the financial community significantly beyond business-as-usual. More positive change will likely require institutionalizing new norms and governance standards, in such domains as fiduciary duties, corporate sustainability reporting, and the internal governance of financial organisations.