

SUSTAINABLE FINANCE

Financial decisions worldwide are increasingly influenced by the scarcity of resources and the changing climate. Governments and the public are demanding sustainable policies to avert the worst effects of climate change and this is affecting businesses' financial and investment decisions, as well as reporting practices and standards. Against this background, each group is expected to conduct an empirical analysis relating environmental aspects to financial performance.

One research avenue is to consider how **performance and investment decisions** are being affected, for example:

- Sustainability and firm performance (either accounting- or returns-related)
- The role of sustainability in the M&A market
- The impact sustainability on the valuation of companies.

One could also look at the financing side of businesses:

- The role of venture capital and Fintech in supporting new sustainable technologies
- The structuring of financial facilities for large-scale clean-tech energy projects

Corporate governance may also play a role in how firms are adapting to the new demands from governments and investors:

- The influence of corporate governance or ownership structures on firm's environmental performance.

And finally, the **reporting side** – what information is being communicated, how reliable it is, how much does disclosure (the amount as well as the quality of it) weigh in investors' decisions.

Some directions to find a research question:



- What is the impact of government regulation to mitigate climate risk (such as the introduction of carbon taxes) on the performance of banks and companies?
- How can or how do entrepreneurs raise capital for sustainable ventures?
- Are green investments attractive for investors (and for which types) and what makes them so?
- Do companies embed sustainability concerns in their investment decisions? Do financial markets care?
- What is the impact of all of this on company value, i.e. do investors care?
- Does ownership structure matter for long-term value creation? Is there a difference in sustainability performance?
- How can corporate governance promote sustainable company policies? Which governance mechanisms are effective?

- Do markets reward more or better environmental reporting?

Databases: the usual databases, Refinitiv Eikon in particular, would generally be sufficient.

Suggested literature.

- Battiston, S., A. Mandel, I. Monasterolo, F. Schutze and G. Visentin, 2017. A climate stress-test of the financial system, *Nature Climate Change*, 7, 283–288.
- Dimson E., O. Karakas and X. Li, 2015. Active Ownership, *Review of Financial Studies*, 28, 3225-3268.
- Dyck, A., Lins, K. V., Roth, L., and Wagner, H. F. , 2019, Do institutional investors drive corporate social responsibility? international evidence, *Journal of Financial Economics*, 131(3): 693-714.
- Friede, G., Busch, T., & Bassen, A. (2015). ESG and financial performance: aggregated evidence from more than 2000 empirical studies. *Journal of Sustainable Finance & Investment*, 5(4), 210–233.
- Hart, O. and L. Zingales, 2017, Companies Should Maximize Shareholder Welfare Not Market Value, *Journal of Law, Finance, and Accounting*, 2, 247-274.
- Krueger, P., Z. Sautner and L. Starks, 2020. The importance of climate risks for institutional investors, *Review of Financial Studies*, 33, 1067-1111.
- Magill, M., M. Quinzii and J.-C. Rochet, 2015. A Theory of the Stakeholder Corporation, *Econometrica*, 83, 1685-1725.
- McCahery, J., Z. Sautner, and L. Starks, 2016. Behind the scenes: the corporate governance preferences of institutional investors, *Journal of Finance*, 71, 2905–32.
- Reinders, H.J., D. Schoenmaker, and M. van Dijk, 2020. A Finance Approach to Climate Stress Testing, CEPR Discussion Paper No. DP14609.
- Schoenmaker, D. and W. Schramade, 2019, Investing for Long-Term Value Creation', *Journal of Sustainable Finance & Investment*, 9(4), 356-377.
- Schoenmaker, D. and W. Schramade, 2020. Incorporating Sustainability into Corporate Finance, *Corporate Finance*, 11, 242-247.
- Schoenmaker, D. and W. Schramade (2022), 'Valuing Companies in Transition', *Sustainability Letters*, 1(1), 1-12.
- Whelan, T. et al. (2022), ESG and financial performance, 2022, Center for Sustainable Business, Stern School, NYU.