

ESG investing to the rescue?

Can green or ESG investing help save our planet? Or is it diverting our attention from public leadership failures at a critical time? An analysis of this financial-meets-environmental practice in 20 countries helps us better understand how and where it works.



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- **Winner of a 2022 Research Excellence Award by the IESE Alumni Association in its annual recognition of the best research by IESE faculty members.**
- **Analyzing data from 20 countries, researchers find a positive relationship between the relative size of green investment in an economy and firms'**

environmental performances, controlling for other measures. That said, the degree to which it helps is moderated by state policies.

- **Countries with stronger shareholder protections, like the United States and Australia, are where the positive impact of green investing is most amplified.**
- **Countries with stronger environmental protections, like Denmark and France, are where the impact of green investing is weaker.**

Climate change has been called the greatest market failure in history. Can financial markets also be part of the solution?

That's the hope with "green investing," i.e., investing with an explicit environmental mission. Green —and, more broadly, ESG— investing has received a lot of buzz and stirred hope that Wall Street could help fix the very problem it did so much to produce.

But there has also been pushback. The former Chief Investment Officer for Sustainable Investing at BlackRock, Tariq Fancy, is now prominent as a green-investing whistleblower. He called the practice a "dangerous placebo" and a "collective denial fantasy" that is wasting our time as the global temperature rises. "If fighting climate change were cheap we'd have dealt with it already," he declared in a [three-part article for Medium.com](#) in August 2021.

So, can ESG or green investing, which is already popular with investors, actually deliver environmental results in a meaningful way? In a 2021 [article](#) published in *Administrative Science Quarterly*, Shipeng Yan, [John Almandoz](#) and [Fabrizio Ferraro](#) offer reasons to be optimistic. They put forward that green investing *can* help and that its success is boosted by making sense of both its financial and environmental "logics" in context.

Green investing: another kind of hybrid

In the paper, the authors analyze a panel dataset of 3,706 firms from 20 countries between 2002 and 2013, when green investment options were just becoming prominent. Despite its limited presence, green investing appeared to have a positive effect during the time period studied. In fact, for each of the 20 countries, the relative size of green investing in the economy was positively related to the firm-level environmental performance there, controlling for other factors. The authors propose that this result comes from an indirect cultural influence, rather than any direct influence on governing structures in companies.

The authors are also interested in which conditions cause green investing to be more or less

effective. This is where the conflicting aims of environmental and financial logics come into play. After all, it's unconventional to try to solve a problem of environmental logic (protecting the planet) using a financial logic (maximizing shareholder wealth). And yet, both aims could be made more compatible.

The state and environmental protection

The state plays a key role in legitimizing environmental goals, the authors find, in various ways. Specifically, they look at the effects of countries' shareholder protection framework as well as their own environmental protection laws.

Shareholder protection laws, whereby states guarantee and protect shareholder rights, employ a financial logic. The study found that in countries with strong shareholder protection laws —like the United States and Australia, for example— environmental performance overall was weaker. However, the effect of green investing on environmental performance was then stronger, suggesting that green investing was legitimized in this context —thus increasing its effectiveness, even if that may seem counterintuitive at first.

At the same time, when countries had strong environmental protection laws, the positive impact of green investing on firm performance was weakened. Essentially, the environmental performance of corporations in these countries was actually better —it's just that these results were achieved by state intervention, rather than by green investing.

What are the levers of change?

Nearly everyone agrees that the state plays a crucial role in the fight against climate change. But public leaders aren't always able to put environmental policies in place, due to political factors, divisions or even war. For this reason, it's vital to understand how other possible tools can work best.

In the authors' own words: "while both green investing and environmental protection policies have a positive relationship with corporate environmental performance, they are substitutes for each other." On the ground, that point is important because most ordinary citizens can't change national environmental laws, but they can, as investors, invest in green.

So, instead of a "dangerous placebo" or "collective denial fantasy," this research finds evidence that green investing can act as a collective push where and when it's needed most.

About the study

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