Call for Papers

Special Issue
"Sustainable Development and Financial Markets"
in Business & Society

Guest Editors:

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To what extent and how can capitalist structures and processes foster, encourage, or facilitate business environmental responsibility? This question is a vigorously debated issue with a long history, particularly given the increasing influence of, and research on, sustainable investment. sustainable investment practices are often described using overlapping and complementary terms, such as social, ethical, responsible, or socially responsible (Eurosif, 2010). In this Call for Papers, sustainable investment is used as generic term to describe investment strategies centered on long-term environmental, social, and corporate governance (ESG) criteria; thus seeking to contribute to sustainable development by integrating investors’ financial objectives with restrictions on ecological and social issues or concerns (Eurosif, 2011; Hoffmann, Scherhorn & Busch, 2004; Juravle & Lewis, 2009; WEF, 2011). The most well-known and widely used definition of sustainable development is "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, 1987).

In recent years, sustainable investment practices have increasingly gained importance in capital markets (e.g., Bauer, Koedijk, & Otten, 2005; Galema, Plantinga, & Scholtens, 2008). In fact, stock market data show that sustainable investments have reached US$ 10.6 trillion globally; for European investments alone, there was an increase from US$ 3.8 trillion in 2007 to US$ 7 trillion at the end of 2009, which corresponds to a compound annual growth rate of 36 percent (Eurosif, 2010).1 In addition, according to some industry surveys (e.g., Allianz, 2010), the market is expected to grow further. The signatories of the Principles for Responsible Investment increased from 557 organizations, worth US$ 18.5 trillion, in 2009 to over 900, worth US$ 30 trillion, in 2011 (PRI, 2010, 2011). Empirical studies suggest that sustainable investments may either
outperform the market (e.g., Derwall, Guenster, Bauer, & Koedijk, 2005), underperform the market (e.g., Chong, Her, & Phillips, 2006), or make no difference in terms of their risk-adjusted financial returns (e.g., Bauer, Derwall, & Otten, 2007). Epistemological concerns with previous research (see, e.g., Orlitzky, 2011; Vogel, 2005) notwithstanding, the results indicate that, at a minimum, there seems to be no clear indication for a negative relationship between share price performance and corporate environmental or social performance (Kurtz, 1997; Kurtz, 2008; Orlitzky, Schmidt, & Rynes, 2003). One might assume that these trends in financial markets and results of empirical studies lead to a greater focus on sustainable development in business practices.

In reality, however, we can observe a somewhat paradoxical situation. On the one hand, many reasons can be identified as to why equity market participants have shown increasing interest in issues of ecological sustainability. In cases where the biophysical environment imposes new constraints and offers new opportunities for businesses, firms must respond to sustainability challenges effectively (Hart & Milstein, 1999; Russo & Fouts, 1997; Shrivastava, 1995). One of the most prominent examples of the business sphere being impacted by the biophysical environment is the limited availability of crude oil coupled with steadily increasing energy demand. This presents both a clear constraint on all carbon-dependent industries and a unique opportunity for the entire renewable energy sector. Furthermore, in some areas, policy makers have started to put pressure on business to internalize negative externalities through environmental regulations. An example of this is the European emissions trading scheme. Such changing conditions in the business landscape affect business risk, profitability, and ultimately competitive advantage (e.g., Busch & Hoffmann, 2011; Orlitzky, 2005; Orlitzky & Swanson, 2008; Porter & Kramer, 2006; Porter & van der Linde, 1995). As such, sustainability has become a central issue in many industries and firms, and it appears plausible that ESG criteria are increasingly integrated into investment decisions (Mercer, 2009; Mercer & UNEP FI, 2007).

On the other hand, when considering ecological reality, current global production and consumption patterns seem to have become even more unsustainable, according to several analyses and projections. For example, global CO₂ emissions increased by 4.4 percent between 2008 and 2010 (from 29.3 to 30.6 gigatons), while at the same time global GDP increased by only 3.9 percent (from US$71.7 trillion to US$74.4 trillion).² This implies that carbon intensity (defined as CO₂ emissions / GDP) increased by .5 percent in the last three years, a trend that raises fundamental questions about the ecological sustainability of current business practice. This dangerous trend is also reflected by the ecological footprint of human activities. In 2007, humanity used the equivalent of 1.5 planets to support its activities; by 2030 humanity is projected to require the capacity of two Earths (WWF, Zoological Society of London & Global Footprint Network, 2010). Given the current population growth, the world's population is projected to grow to about 9.3 billion by 2050 (in 2011, it reached the inglorious milestone of seven billion) – despite an assumed declining growth rate.³ In the words of Jeffrey D. Sachs, director of Columbia University's Earth Institute, "This is a crowded planet. This is trouble, frankly…"⁴

As such, many examples can be found which illustrate that, in spite of increasing concerns about environmental and closely related social and governance issues, there has not been a significant global shift towards greater sustainability. This Special Issue will address this paradoxical situation related to the market demand for and "supply" of sustainable development.
Contributions to the Special Issue may cover (but are not limited to) the following research questions:

- What are the contemporary sustainable investment practices, and how effective are they in terms of their contribution to sustainable development? How are these sustainable investing practices affected by other events and upheavals in financial markets, such as the 2008/2009 financial crisis or the 2011 Euro crisis?
- How can different (economic, sociological, psychological, etc.) theories of equity market participants’ decision making, business cycles, and aggregate market dynamics inform the debate on sustainable development and financial markets?
- How do individual market participants react to sustainable investment products? Do the characteristics of these "sustainable" investors differ from those of regular investors?
- Is the filing of shareholder proposals on environmental and social issues an effective mechanism for investors? And, if so, which investors are most likely to have an impact?
- How do ESG signals affect financial markets? What is the impact of institutional entrepreneurs on the viability of ESG investing?
- How, if at all, do sustainability-oriented institutional logics influence investor choices and corporate finance decisions? In general, what is the impact of sustainable investing?
- To what extent do the trends in sustainable investing call for changes in corporate governance structures?
- What are effective (or ineffective) corporate strategies to attract capital from sustainability-oriented investors? How can we use theory to derive best practices for business—particularly environmental entrepreneurs?
- What are some firm-internal preconditions for more successful business positioning vis-à-vis with sustainability-oriented investors?
- What is the role of sustainability-related investment recommendations from security analysts and rating agencies for firms and investors (see, e.g., Ioannou & Serafeim, 2010)?
- What theoretical perspectives or typologies can be identified for different investment styles, and what do they imply for efforts seeking to foster sustainable business practices? For example, what is the role of "impact investments"? This investment style critically reflects on the outcomes (e.g., the environmental improvement) of an investment strategy before an investment in an asset or construction of a portfolio occurs (Eurosif, 2010).
- What are individual and/or institutional investors' expectations about sustainable development, and how do these expectations affect their investor behaviors? To which extent do (should) investors reflect on sustainability trends in investment decisions from a real-options point of view (e.g., Busch & Hoffmann, 2009)?
- What are the myths and realities of sustainable investments? What are the validity challenges inherent in ESG data screens (Chatterji, Levine & Toffel, 2009; Entine, 2003; Waddock, 2003)? In other words, do ESG criteria and data really measure what they purport to measure?
- How can ESG criteria best be applied to other asset classes beyond publicly traded securities (e.g., corporate bonds), and how may possible barriers be overcome?
Process and timeline

- Deadline for submissions: **October 15th, 2012**
- Manuscripts must be submitted electronically via email to Timo Busch: tobusch@ethz.ch
- The submission should consist of two separate WORD documents: (i) a manuscript without title page and without author identification information of any kind, and containing an abstract (about 100-150 words) and keywords (3 – 5); (ii) a title page with full author contact information
- Further information regarding the formatting of *Business & Society* can be found on the web page (do not submit the paper through the online submission system):
  [http://www.uk.sagepub.com/journalsProdDesc.nav?ct_p=manuscriptSubmission&prodId=Journal200878&crossRegion=eur](http://www.uk.sagepub.com/journalsProdDesc.nav?ct_p=manuscriptSubmission&prodId=Journal200878&crossRegion=eur)

References

BAS formatting for references generally follows APA standards. Book and journal titles are italicized, together with journal volume numbers. Book, chapter, and journal article titles are lower case as shown below.


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i Applied exchange rate: EUR/US$ 1.40
ii [http://www.iea.org](http://www.iea.org)
iii [http://www.npg.org/facts/world_pop_year.htm](http://www.npg.org/facts/world_pop_year.htm)