

Research Showcases Under Recognised Strategy for Sustainable Investing

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Amidst rising scepticism about the impact of sustainable investing, new research from Rotterdam School of Management (RSM) showcases that traditional strategies for influencing companies, namely shareholder engagement and portfolio screening, are not exhaustive.

By screening over 3,500 research papers, the researchers identify a underrecognized strategy for influencing companies, which they call “field building”. Field building means that investors influence the fields in which companies operate, thereby exerting influence on companies indirectly via other stakeholders or by changing aspect of the field.

The researchers identify five tactics for field building: (1) Shifting other investors’ evaluation of issues, (2) Sharing expertise, (3) Delegitimizing certain business activities, (4) Establishing voluntary standards, and (5) Supporting regulatory changes.

“Each of the five tactics can change the fields in which companies operate, thereby creating additional pressure for companies to become more sustainable. Despite these opportunities for increasing their impact, two reasons may deter investors from venturing into field building.

“One reason is profitability. It can be difficult to make a business case for field building over the short term. Field building mostly generates costs for an investor, while benefits will be captured by other investors, including those in the future. Yet, given that many individuals are willing to accept lower returns if their investments create greater impact, they may seek out asset managers that engage in field building even if higher management fees slightly lower their returns.

“Another reason is political exposure. Field building requires that asset managers publicly take a stance on sustainability issues, which could lead to backlash by people with different views — a risk that is higher among asset managers that cater to a wide range of customers. These asset managers can limit this risk by doing field building on sustainability issues for which a broad consensus exists among their customers and that are backed by a strong business case,” says Emilio Marti, associate professor at RSM, Erasmus University.

By broadening their toolbox of tactics, and mastering field building, investors can better position themselves to have a more positive impact on the environment and society — and, in doing so, attract more individual investors that care about impact.

The research has been published in an open access article in the Journal of Management Studies (<https://onlinelibrary.wiley.com/doi/epdf/10.1111/joms.12957>.)

Video here (<https://www.rsm.nl/discovery/2024/strategy-for-sustainable-investing/>)

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