Management international
International Management
Gestiòn Internacional

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Ahmed Marhfor et Hajer Tebini

Volume 25, numéro 2, 2021

URI : https://id.erudit.org/iderudit/1077794ar
DOI : https://doi.org/10.7202/1077794ar

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Éditeur(s)

HEC Montréal
Université Paris Dauphine

ISSN

1206-1697 (imprimé)
1918-9222 (numérique)

Citer ce compte rendu

Marhfor, A. & Tebini, H. (2021). Compte rendu de [*Éléments de la finance responsable : une perspective multidimensionnelle*. Frank Coggins, Claudia Champagne et Lyne Latulipe. Édition Yvon Blais, 2018. 731 pages]. *Management international / International Management / Gestiòn Internacional*, *25*(2), 239–244. https://doi.org/10.7202/1077794ar

Note de lecture

Éléments de la finance responsable : une perspective multidimensionnelle.

Frank Coggins, Claudia Champagne et Lyne Latulipe.
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Ahmed Marhfor
Department of administrative studies,
University of Quebec in Abitibi-Témiscamingue (UQAT),

Hajer Tebini
École des sciences de la gestion,
Université du Québec à Montréal, Canada

The book focuses on the most relevant subjects related to socially responsible investing (SRI) and corporate social responsibility (CSR). It develops a multidimensional perspective that helps readers broaden their understanding of the various issues in the field of SRI and CSR. The book also proposes many relevant avenues for future research in the same area. The main objectives of this interesting project are realized through the collective contribution of many authors with various expertise and background. As SRI and CSR are complex subjects with highly fragmented fields, the task for uncovering and identifying limited milestones in this area is not simple. However, authors have succeeded to limit the scope of their work to five thematic areas that englobe many important research questions.

Chapter 1 of the book provides an overview of SRI as a practice that incorporates environmental, social and governance (ESG) factors. In this Chapter, authors outline the main aspects of the SRI literature and explore different perspectives. They also introduce green investments in real estate and cover issues linked to impact investing, shareholders activism and SRI financial performance and risk. Chapter 2 is structured in a way that helps the reader understand the role of financial institutions in economic development. It also helps investors understand many issues behind the long term emerging qualitative risks, longevity risk, hedge-fund risk-taking cycles and the role of extra financial disclosure. Chapter 3 examines the potential links between corporate governance, life cycle assessment and CSR. Authors also introduce the debate about cultural diversity in corporations, green marketing strategies, and the impact of CSR on mergers and acquisitions performance. Chapter 4 explores different subjects linked to corporate taxation, international reputational risk, tax avoidance, tax havens, offshore finance, public funding, and CSR. Finally, chapter 5 contains a detailed discussion about postmodern ethics, routine activity theory in the context of financial activities, the mechanisms for detecting financial fraud, sustainable financial regulation, and responsible finance as a process of building strong moral responsibility.

Evaluation of the Book

The book seeks to contribute to the literature by reaching out to various authors with both academic and professional background. It is worth mentioning that most authors have varied expertise within and across many disciplines (e.g. Finance, economics, environment, law, and philosophy). In the book, all contributors support adequately their claims, provide the necessary background information, and offer in many cases specific solutions. Furthermore, a great attention has been paid to the clarity of expression. In the same line of reasoning, most chapters arguments are built on an appropriate base of theory and concepts. The main ideas are also arranged in a logical sequence that allows readers to connect easily all five chapters. The book will certainly inspire new thinking about the main challenges that affect SRI and CSR.

One of the strengths of this work is that it can be used both in teaching and in research. Even practitioners can rely on many elements of the book to guide and improve their actions. In this respect, authors have done a good job reducing the gap between theory and practice. This is not a surprise knowing that many practitioners in the field of SRI and CSR have written several interesting chapters that go beyond the traditional theoretical thinking. Even the writing style considers different types of audiences and helps demystify many complex financial concepts. We are confident that both institutional and regular investors can learn new and significant information from the book. The latter can also be a significant source for many new ideas for future research projects. As suggested earlier, the multidimensional approach of the book not only broadens our understanding of the various issues linked to SRI and CSR but it could also open new perspectives of cooperation between universities, compagnies and financial institutions. Hopefully, such cooperation will contribute to more sustainable economic growth and prosperity.

Finally, it is worth mentioning that some interesting work already proposed in the literature have not been covered by the book. We understand that it is very difficult to include all relevant sources of literature, but several other influential papers could be looked at. From our perspective, adding only a small range of literature sources should significantly expand the book contribution. In the next section, we will propose a critique of the content and purpose of the book

Critical analysis

To gain a proper understanding of the role of responsible finance, authors should have added a section that examines the relationship between responsible finance, sustainable banking regulation and systemic risk. The recent rise of sustainable banking is based on the potential shocks that are related to climate change. Such environmental risks may have dire consequences for financial stability. It is well known that financial institutions play an important role in the allocation of credit in the economy. As a result, financial sector shocks can be transmitted easily to real economy and have the potential to disrupt the activity of many business sectors. Many scholars consider climate change as a major risk to the economy and the financial sector. Hence, we consider that it is important for researchers and practitioners to propose new financial tools that will enhance the flow of funding to green firms and ultimately reduce the climate risk. In this context, a new strand of research can play an important role in developing new models that combine standard banking capital regulations with ESG factors. The purpose is to help financial institutions and investors develop new tools related to ecological risk assessments. Here the book contribution falls short. Chapter 2.4 of the book highlights the strategic role played by financial institutions. Chapter 5.4 introduces new paradigms for sustainable financial regulation. On the other hand, both chapters omit the literature that integrates sustainability aspects into macroprudential policies. In this respect, many studies (e.g. Rozenberg et al. 2013; Punzi 2018) suggest that ESG factors are relevant for banking capital requirements. For instance, one purpose of the green capital regulation is to differentiate loans for low-carbon emission firms (green firms) from loans for high-carbon emission firms (brown firms) and relax (increase) the minimum banking equity requirement for green (brown) firms. This innovative macroprudential tool should facilitate green financing, boost the innovation and production of the green sector, and ultimately reduce systemic risk linked to climate change (Punzi 2018). In the traditional financial literature, dynamic stochastic general equilibrium (DSGE) models have been used to study and understand the transmission of financial sector shocks. A new strand of research should develop enhanced DSGE models that incorporate ecological risks and examine whether combining financial stability and ecological sustainability is beneficial. Exploring and adopting innovative prudential policy responses that incorporate environmental sustainability are important because of the dire consequences climate change can have on financial stability.

The first chapter of the book explains how a growing number of financial market actors have committed to take into consideration ESG factors when making investment decisions. On the other hand, the book does not raise the question of how to identify and prioritize ESG issues that should be important for socially responsible investors. We argue that analyzing ESG factors that matters for investors and firm's stakeholders should be a priority for firms because it is likely that sustainability issues may vary across firms, industries and time (Eccles & Serafeim, 2013; Khan et al. 2015). In this respect, the book authors should have introduced the materiality concept and the benefits of taking a materiality analysis. An efficient materiality approach should help identify and prioritize the main relevant ESG issues that matter for the firm, its stakeholders, and investors. As suggested by Khan et al. (2015): "*since sustainability performance does not have the feature of aggregation that the financial statements have, materiality guidance could serve as a new aggregation procedure*" (p.7). Consequently, CSR reports should be more informative and investors will be able to better allocate their capital. At the same time, corporations could meet investors and stakeholders' expectations and ultimately create value. The materiality issue is also linked to social and financial performance measurements. Some findings in the literature suggest that ESG ratings that focus only on issues that are financially relevant to a firm are better predictors of firm financial performance in comparison to aggregated ESG ratings (Khan et al. 2015). This may explain why ESG rating agencies focus more on material ESG factors.

In addition to the materiality issue, the book does not raise the question of how well do ESG scores evaluate corporate social performance. The issue of the role played by ESG rating agencies in reducing information asymmetry about corporate sustainability is also not covered by the book. During the 2008 financial crisis, traditional rating agencies have been criticized for the poor quality of their ratings. This is why the issue of studying the quality of ESG ratings is important.

In the same line of reasoning, the literature that considers CSR as a model of governing transactions among firm stakeholders is also worthy of study. An important strand of research (Williamson, 1975; Hart & Grossman, 1986; Hart, 1989; Hart & Moore, 1995) argues that firms can be thought as institutions arising from the incompleteness of contracts. This literature explains how it is difficult to make contracts that cover all aspects of firms' operations and every possible future event. Indeed, it is well known that transactions between firm's stakeholders are characterized by high levels of uncertainty, information asymmetry and specific investments (Barney, 2018). For these reasons, many authors (e.g. Barney, 2018; Sacconi, 2006, 2007, 2012) define CSR as a multi-stakeholder model of corporate governance emerging from the incomplete contract theory of the firm. According to them, CSR engagement may help develop a series of social norms and standards that are able to generate the proper incentives that allow managers to run the firm to the mutual advantage of its stakeholders. CSR should then reduce uncertainties linked to contractual incompleteness. We consider that the "optimal" contracting view of CSR is an important research avenue because it combines stakeholder thinking with agency theory, social contracts theories and the new institutional economic modeling (Sacconi, 2012; Tirole, 2001, 2005; Barney, 2018). Furthermore, many questions related to the "optimal" contracting view of CSR remain unanswered to date. In this respect, several papers (e.g. Tirole, 2005) examine whether optimal managerial incentives and control structures can be put in place to efficiently implement CSR initiatives that will reduce uncertainties related to contracts incompleteness. The book should have covered such literature. In addition, the difficulties linked to the implementation of CSR "optimal" contracting approach is also worth of study. For instance, a large strand of the literature recognizes that providing the proper incentives for managers to reach out to various stakeholders is very difficult to put in practice. One important issue linked to managerial incentives is how to properly assess the aggregate welfare of firm's stakeholders (including shareholders'). Most authors agree that finding a good proxy for stakeholders' value maximization is a complex process. As suggested by Tirole 2005: "*there is no market value of the impact of past and current managerial decisions on the future welfare of stakeholders; that is, there is no counterpart to the stock market measurement of the value of assets in place, since the employment, supply, or other relationships with the firm are not traded in liquid markets, unlike the shareholder relationship*" (P.62) . The same reasoning applies to firm control structures that foster the stakeholder view of corporations. According to Tirole (2005), maximizing all stakeholders surpluses is unlikely to be achieved by the control structure that prevails under the shareholder-value paradigm. It is also very difficult to implement the stakeholder paradigm if control goes entirely to non investors or shared with other stakeholders (Tirole, 2005). Hence, new thinking that promotes innovative control structures should be an important future research avenue in CSR and SRI fields.

Furthermore, it should be important to present criticisms levelled against the foundation of the multi-stakeholder approach. The question of how to respond to these criticisms is also worth of study. In this respect, the book should have added a section that examines studies that propose counterarguments to CSR criticisms and develop conceptual specifications of a multi-fiduciary model of CSR. Authors argue that the multidimensional approach of the book represents an opportunity for developing new perspectives linked SRI and CSR. On the other hand, an important strand of research (e.g. Jensen, 2002) argue that many constraints may arise from the multidimensional characteristics of CSR. According to the stakeholder perspective, managers should reach out to various stakeholders and focus on maximizing their surpluses (Freeman, 1984; Tirole, 2005, Harjoto & Jo, 2011; Jo & Harjoto, 2012). In this respect, the stakeholder theory extends the concept of fiduciary duty to all firm stakeholders (not only toward shareholders). Hence, the logical structure of the stakeholder orientation proposes to maximize in more than one dimension. Jensen (2002) argues that it should be impossible to achieve this objective unless the dimensions are monotone transformation of one another. He suggests that multidimensionality will act as an important constraint to managers decisions because, at some point, they will be faced with the necessity to make trade-offs between competing stakeholders' interests (Jensen, 2002). For instance, in many cases, a firm stakeholder can obtain more only if there is a reduction in the surpluses of other stakeholders. Critics of the stakeholder theory (Jensen, 2002; Tirole, 2005) argue that such approach contains no conceptual specification of how to make these trade-offs. Consequently, the potential ambiguity and lack of one clear purpose leave managers with no criterion for problems solving (Jensen 2002). This may provide an opportunity for some managers to pursue whatever objective the wish and exercise their own preferences when using firm's limited resources (Jensen 2002). As suggested by Tirole (2005): "*the concern is that management's invocation of multiple and hard-to-measure missions may become an excuse for self-serving behavior, making managers less accountable. For example, an empire builder may justify the costly acquisition of another firm on the grounds that this acquisition will save a few jobs. Or a manager may select a costly supplier officially on the grounds that this supplier has a better environmental policy, while actually entering in a sweet deal with a friend or reciprocating a favor*" (P.59). On the other hand, the shareholder value concept considers the maximization of firm's value as the criterion for making the necessary trade-offs between firm's stakeholders competing (and sometimes inconsistent) interests. According to Jensen (2002), this single-valued objective provides the following clear answer to the trade-off issue: "*spend an additional dollar on any constituency to the extent that long-term value added to the firm from such expenditure is a dollar or more*" (P.242). In the literature so far, there is no clear conceptual specification of how to make the necessary trade-offs among stakeholders while maximizing their surpluses at the same time. The book should have covered this issue and proposed potential future avenues that will help relax the constraints linked to an efficient implementation of the enlarged concept of fiduciary duty.

As suggested earlier, CSR can be viewed as a process that leads to optimal contract solutions among stakeholders. On the other hand, it is possible that some regulatory frameworks may limit the set of contracts that can be signed among firm's stakeholders and ultimately reduce the benefits of CSR activities (Tirole, 2005). Therefore, studying the impact of the regulatory environment should represent an important issue to cover. Unfortunately, the book does not assess in depth the role played by governments and courts. For instance, we do not know in more details whether regulatory interventions in favor of stakeholders' rights play an important role in fostering the best practices in SRI and CSR fields. In this respect, many studies that cover the US market have examined the impact of the enactment of state-level constituency statutes that allow managers to consider the interests of firm's stakeholders. Under these laws, executives can take into account the interests of firm's employees, local communities, and other stakeholders in addition to their fiduciary duties towards shareholders. One important advantage of this research is that the introduction of stakeholders' "friendly" laws offers an exogenous variation in firms' CSR engagement. Many authors (e.g. Harjoto & Jo, 2011; Jo & Harjoto, 2012) argue that finding significant associations between CSR engagement and many relevant variables (e.g. financial performance, risk, innovation etc…) may be spurious because such association can be driven by unobserved firm's characteristics. In other terms, CSR and SRI are not random decisions. Hence, studying the impact of stakeholder protection through regulation can resolve endogeneity issues linked to CSR and SRI research. Using mostly a difference-in-differences approach with the treatment group reflecting US states that adopted constituency statutes and a control group composed of US states without stakeholder protection laws, most studies findings indicate a positive association between the enactment of the laws, financial performance, innovation etc…. In addition, many authors also investigate the mechanisms through which constituency statutes enhance firm value and encourage innovative activities. For instance, Flammer and Kaperczyk (2016) found that such regulatory frameworks promote a secure work environment and increase customers satisfaction.

In addition to the regulatory framework that fosters stakeholders' orientation, the book should have covered in depth investors-related regulation (e.g. institutional investors regulation and stewardship codes). It is worth mentioning that some authors of the book have covered many aspects linked to corporate disclosure. However, even though mandatory ESG reporting may be important, it is not a sufficient condition to foster higher standards in SRI and CSR. In this respect, because of the growing influence of institutional investors, we argue that these important markets participants (e.g. pension funds, hedge funds etc…) should be expected to consider ESG factors when making investments decisions and improving the monitoring of compagnies they invest in. Therefore, studying the impact of investors-related regulations should be an important issue in SRI and CSR. The subject is linked to shareholder activism (chapter 1.4) but focuses more on policy initiatives that promote institutional investors' monitoring of investee companies.

Finally, the book failed to notice the numerous papers that try to explain the motives behind CSR and SRI (especially the moral motivations). In the literature, authors distinguish between financial/strategic (extrinsic) motives and moral (intrinsic) motives. It will be interesting to review the main motives that push investors and managers to behave responsibly. Understanding the main motivations behind CSR and SRI is valuable because it gives useful insights to many market participants (e.g. firms' managers, institutional investors, policymakers etc...) regarding the best mechanisms of CSR and SRI engagement and the potential incentives and policy recommendations that may foster such initiatives.

Conclusion

The book titled *Éléments de la finance responsable: une perspective multidimensionnelle* is the contribution of many authors with a wide range of expertise related to CSR and SRI fields. This interesting research project contributes to the literature in many ways. *First*, it proposes a multidimensional approach that allows readers to fill the gap between the highly fragmented fields of CSR and SRI. Such approach also represents an opportunity for developing interesting new perspectives and avenues for future research. It also helps broaden readers understanding of the various issues linked to SRI and CSR. *Second*, the book seeks to reduce the gap between theory and practice by reaching out to many practitioners in the field of responsible finance. In addition, the diversity in terms of authors expertise allows the book to target different types of audiences (e.g. academics, firms' managers, institutional investors', policymakers etc...) and to propose practical solutions to many important issues. *Third*, the book could open new perspectives for a mutually beneficial cooperation between universities, compagnies, local communities, institutional investors, and policymakers. *Fourth*, most chapters propositions can be used both in teaching and in research. Practitioners outside the academic field can also benefit from many elements proposed in the book.

We recognize that the task of bridging the gap between the various fields of CSR and SRI and identifying critical issues in the same area is not simple. However, we argue that a small range of influential research is missing. From our perspective, authors should have also covered some interesting work that examines sustainable banking capital regulation, materiality analysis, ESG ratings quality, the contractual view of CSR, investors-related regulation, the motives of CSR/SRI, and criticisms levelled against the stakeholder approach.

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