

Responsible investment is not enough to combat climate change

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The aim of the new by Tatu (left) and Vesa Puttonen is to raise discussion on responsibility and the roles each of us plays in the fight against climate change. Credit: Tatu Puttonen and Evelyn Kask/Aalto University

In their new book on responsible investment, Professor Vesa Puttonen and Bachelor of Science Tatu Puttonen state that politicians cannot outsource their responsibility for combating climate change to asset managers and investors. The book has been published as part of the Aalto University publication series.

The popularity of responsible [investment](#) has increased dramatically, and

the issue of [climate change](#) has further increased its popularity. According to Professor of Finance Vesa Puttonen and Bachelor of Science Tatu Puttonen, people's expectations of responsible investment have become excessive; the reality is that the [financial sector](#) is not able to save the world from climate change. A book on this topic written together by this father-and-son duo has just been published as part of Aalto University's Business + Economy publication series.

"New indicators have been developed for [corporate responsibility](#), and the end result is a seemingly precise ESG score (Environment, Social and Governance). However, the score depends on the classifying agency, and different rating agencies can give a different ESG value to one and the same company. There is no single right way to determine a company's level of responsibility, and it is well worth asking which indicators an investor should use to make their [investment decisions](#) if they want to invest responsibly," Vesa Puttonen explains.

Many practical examples

Responsible investment has traditionally been marketed as a high-yield and low-risk investment alternative, but as its popularity saw strong growth, the share values of companies with high ESG scores have increased. At the same time, the expected return has decreased, so it is no longer justified to invest in companies with a high ESG score based on an expectation of a higher return.

"In our book we present a number of practical examples that show how difficult and contradictory it can be to take responsibility into account in investment activities," explains Vesa Puttonen.

The book also takes a stand on the role of investors, asset managers and politicians in combating climate change. It asserts that politicians cannot outsource their responsibility for combating climate change to asset

managers and investors. In addition, politicians must not expect companies to make investments to combat climate change unless they are economically viable; the role of politicians is instead to create the kinds of common rules that will motivate companies to make environmentally sustainable investments.

"Responsible investment is not enough in the fight against climate change. The investor community is indeed creating its own taxonomy of responsibility, but this does not necessarily produce an optimal environmental outcome. Politicians must make polluting the environment so expensive that companies will do all they can to make their activities low-carbon."

Aimed at stimulating discussion

The idea of writing a book on responsible investment took shape when Vesa and Tatu Puttonen were discussing a topic that connects them professionally. They wrote the book especially for investors and asset managers interested in responsibility, but because of the importance of the topic they wanted to publish it in the Aalto University publication series, where it can be read openly by anyone interested in the topic.

"Climate change is a genuine challenge for everyone. The [financial world](#) is happy to give the impression that it has the tools for solving these problems, and this message has strengthened in recent years. A more detailed analysis shows, however, that the tools are inadequate and even misleading. We understand that our message is not necessarily one that the financial world wants to hear. Despite this, we hope that our book will stimulate discussion about responsibility and topics such as the role that we can each play in fighting [climate](#) change," Vesa Puttonen concludes.

Provided by Aalto University

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