The State of Sustainable Investing Among Asset Managers in Finland: A Survey-Based Study

Reeta Jutila, Asif Ruman and Petri Sahlström

Abstract

This study explores the sustainable investing practices of Finnish asset managers, analyzing their integration of ESG factors, sustainability disclosure methods, and strategies to ensure transparency and mitigate greenwashing. Surveying major asset managers in Finland in 2022, we achieved a 77.4% response rate. Our results show a strong commitment to sustainable investing yet reveal a lack of consensus among asset managers in defining it. Interestingly, fixed-income investments, not equities, are preferred for sustainable investing, and most asset managers aim to make a positive societal and environmental impact. ESG integration is the dominant strategy, but concerns about greenwashing are prevalent. The study explores the implications for industry standards, regulatory policies, sustainability measurement methodologies, and further research. It provides a valuable basis for understanding sustainable investing.

Keywords

ESG; Green finance regulations; Greenwashing; SRI; Sustainable asset management; Sustainable finance.

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1. Introduction

The purpose of this study is to investigate sustainable investing practices in Finland, focusing on the mechanisms employed by Finnish asset managers to integrate environmental, social and governance (ESG) factors, reporting standards adopted, and how transparency is maintained to prevent greenwashing. In response to climate change, sustainable investing has emerged as a global financial strategy, integrating ESG factors for risk management and profit optimization, which now account for a significant portion of assets under management globally (Abate, Basile & Ferrari, 2021; GSIA, 2021; Popescu, Hitaj & Benetto, 2021; Utz, Wimmer & Steuer, 2015;).

Despite its growth, sustainable investing faces challenges such as greenwashing due to rapid industry expansion, lack of standardization, as well as regulatory gaps (Candelon, Hasse & Lajaunie, 2021; Popescu et al., 2021). To combat these challenges, there has been a push for more stringent standards, better regulation, and clearer evaluations of sustainability. Asset managers are increasingly expected to enhance transparency (Berron, Fosfuri & Gelabert, 2017; Peregrine, 2022), supported by sustainable investment bodies and government initiatives, yet the evaluation of sustainability, particularly in non-financial terms, remains an area that needs further development (Delmas & Blass, 2010; Utz & Wimmer, 2014; Atz, Van, Liu & Bruno, 2023).

Previous research on sustainable investing has mainly focused on the returns of sustainable investing (see, e.g., Atz et al., 2023; Pastor, Stambaugh & Taylor, 2022; Whelan et al., 2021). Another area is the implications of ESG-related issues on corporate finance (e.g., Bauer, Koedijk & Otten, 2005; Gillan, Koch & Starks, 2021). While previous research has primarily focused on these two broad themes, there is a growing need to investigate sustainability performance (Amel-Zadeh & Serafeim, 2018; Benson, Brailsford & Humphrey, 2006; Popescu et al., 2021).

This study explores non-financial issues related to sustainable investing, particularly among asset managers operating in Finland. Specifically, the study addresses the following research questions: (1) How do Finnish asset managers integrate ESG factors into their investment decision-making processes? (2) What reporting frameworks and standards are used by Finnish asset managers to disclose their sustainability performance to stakeholders? (3) How do Finnish asset managers ensure transparency and integrity in their claims about the effectiveness of their investments to mitigate the risk of greenwashing?

Sustainable investing in Finland has seen significant development, marked by increased investor knowledge and the introduction of key initiatives such as the OMX Finland Sustainability Index in 2011 and the country's first green bond in 2016. The Finnish Sustainable Investment Forum (Finsif) has been instrumental in this growth, and there is evidence of widespread adoption among institutional investors and asset managers. Despite the positive trajectory, with ESG integration becoming a prevalent strategy (Finsif, 2020; GSIA, 2021), challenges such as data comparability and quality remain.

While Finsif reports provide valuable insights into sustainable investments among a diverse range of institutions[1], including universities, national broadcaster, central banks, pension funds, and commercial banks, our study specifically focuses on asset management companies in Finland. By narrowing our focus to this sector, we offer a unique perspective that delves deeper into the strategies and preferences of asset managers, who play a critical role in shaping investment decisions. We also address our research questions by using a mixed-method approach through a descriptive survey sent to 31 major Finnish asset managers. The response rate was robust with 24 asset managers participating fully in the survey, representing a response rate of 77.4%.

1 https://finsif.fi/members/

Our findings contribute to the literature in several ways. First, we provide empirical evidence to highlight the strong commitment to sustainable investing in the Finnish asset management industry. Specifically, a striking 96% of the asset managers reported using a dedicated sustainable investing strategy. This suggests that principles of sustainability have significantly permeated the industry, confirming its movement toward more responsible and sustainable asset management practices. Second, our study provides insight into the continuing debate surrounding the definition of sustainable investing. 56% of the respondents felt there was no consensus among investors and asset managers, pointing to a divergence in understanding and application of the principles of sustainable investing. This lack of consensus underlines the need for further dialogue and more precise guidelines to define and operationalize sustainable investing.

Third, our results suggest a reconsideration of the conventional position of equities as an asset class within the sustainable investing framework. A vast majority, i.e., 92% of the asset managers identified fixed-income investments as their preferred asset class for sustainable investing, suggesting a significant shift in sustainable investing strategies. This preference contrasts with the 60% of Finsif respondents who favored fixed-income investments (Finsif, 2022), a discrepancy that may stem from the various types of businesses represented by Finsif members, compared to the homogeneous group of asset managers in our study. Fourth, our research underscores the shift in the motive for sustainable investing. The dominant motive was to make a positive societal and environmental impact, as reported by 92% of the asset managers. This reveals a transformative trend in sustainable investing, moving beyond solely profit-oriented goals to a more comprehensive approach that includes societal and environmental benefits.

Fifth, our findings reveal a high prevalence of ESG integration among the asset managers we surveyed. Most of them (92%) reported ESG integration as their primary sustainable investing strategy, further emphasizing the adoption of principles of sustainability in asset management. Lastly, the findings of this study shed light on the emerging issue of greenwashing in the sustainable investing sector. Quite a few asset managers (54.17%) acknowledged that this was a problem, highlighting the urgent need for improved regulations and clearer reporting requirements to ensure the authenticity of sustainable investing practices.

Overall, our research contributes to a better understanding of the current practices and challenges in sustainable investing, offering valuable insights for policymakers, asset managers, and researchers. This study also provides insights into the sustainable investing practices of asset managers in Finland and can serve as a basis for future research in this field.

The implications of this study offer valuable insights into the field of sustainable investing. First, our findings highlight the need for standard industry definitions and standards for sustainable investing, potentially guided by new EU regulations. Second, our research underscores the critical demand for robust standardized methodologies for measuring sustainability, thereby helping to tackle the prevalent issue of greenwashing. We also provide useful guidance for regulators, highlighting the need for policy modification to ensure industry transparency and suggesting that extra support should be available for smaller asset managers navigating regulatory changes.

The study also reveals the need to tailor industry standards and policies, recognizing the range of sustainable investing practices across the different kinds of asset managers. Lastly, against the background of widespread optimism about the profitability of sustainable investing, we highlight the importance of further research to corroborate these optimistic views. Our research underscores the value of open discussions on sustainability, suggesting a shift from sustainability as a theoretical concept toward its practical implementation in investing. The rest of the paper is structured as follows: Section two reviews the literature, section three discusses data and methods, section four presents and discusses the results of this study, and lastly, section five concludes this work.

2. Literature Review

As defined by institutional sources and the European Commission, sustainability meets present needs without undermining the potential of future generations to meet their own needs (Siri & Zhu, 2019). This includes the economic, environmental, and social considerations aligned with the UN's 17 Sustainable Development Goals (SDGs). However, perceptions of sustainability vary, creating a multifaceted concept. The literature uses many terms and definitions to describe sustainable investing. Starting with ethical investing, this evolved into socially responsible investing (SRI), in which investors consider the social, environmental, and ethical aspects of their decisions (Chong & Phillips, 2016; Kreander et al., 2005; Renneboog et al., 2008b). ESG investing, which gained traction after the 2006 UN-backed Principles for Responsible Investing, proactively incorporates ESG factors into the investment selection process, as they are viewed as more holistic than SRI (Chong & Phillips, 2016; Kempf & Osthoff, 2008; Michelson et al., 2004).

Responsible investing recognizes the ESG factors in investment processes, aiming to enhance portfolio risk-return relationships as stated by, for example, Pastor, Stambaugh & Taylor (2022). This study primarily uses the term *sustainable investing*, as defined by GSIA (2019), referring to the inclusion of ESG factors in portfolio creation and management. However, the different understandings of sustainability and the multiplicity of related terms create challenges in monitoring and regulating sustainable investing (Chong & Phillips, 2016; Kotsantonis & Serafeim, 2019).

Despite its recent prominence, sustainable investing has its roots in religious practices. Examples include ethical investment rules from Judaism, investment constraints rooted in Christianity during the Middle Ages, Quaker practices in the 17th century, and the Islamic prohibition on investing in certain industries (Renneboog et al., 2008b; Schueth, 2003). Sustainable investing evolved throughout the 20th century, spurred by societal change and crisis. Its modern form emerged in the 1960s in societal issues such as the Vietnam and Cold Wars and gender equality movements (Schueth, 2003). Investor pressure on companies associated with South Africa's apartheid policies in the 1980s and industrial disasters toward the end of the decade led to the recognition of the adverse environmental impact (e.g., Li et al., 2024), making environmental concerns a critical part of sustainable investing (Berry & Junkus, 2016; Renneboog et al., 2008b).

The interest in sustainable investing increased dramatically post-1990s, driven by ethical consumerism, human rights, and corporate governance issues. In 2006, the UN-supported Principles for Responsible Investing marked a pivotal point by setting international guidelines and introducing new terms for sustainable investing (Hyrske et al., 2020; Renneboog et al., 2008b; Schueth, 2003). Climate-related issues gained prominence after the 2016 Paris Agreement, which aimed to limit global temperature rise (Hyrske et al., 2020). However, the rapid growth in sustainable financial products has raised concerns about greenwashing, fueling the need for robust sustainability reporting and standards (Popescu et al., 2021).

Due to the integration of ESG considerations into investment decisions, sustainable investing has gained considerable traction globally. This is also evident in Finland, where sustainable investing has been increasingly standardized, with a higher demand for sustainable strategies among asset managers (Hyrske et al., 2020). Organizational entities such as Finsif, Sitra, Yritysvastuuverkosto FIBS, and Nasdaq Helsinki have been instrumental in driving sustainable investing in the country, with Finnish legislation providing indirect support through sustainability reporting guidelines. Despite the small number of mutual funds focused on sustainability, there has been a reported upsurge in the adoption of sustainable investing strategies (Finsif, 2019). Challenges remain, such as the comparability and lack of ESG data, but the importance of sustainable investing continues to grow.

Sustainable investing was traditionally associated with equity investments. However, it is increasingly being implemented across different asset classes, such as fixed-income securities and alternative investments, with unique challenges and opportunities. Sustainability practices in these asset classes can differ significantly. For example, investment in real estate is heavily focused on environmental factors, whereas private equity investment offers greater opportunities for an investor to influence a firm's sustainability practices. Although sustainable investing strategies have mainly been developed for equity investment, progress has been made in integrating sustainability factors into the fixed-income and alternative investment sectors (Dorfleitner et al., 2021; Ruman et al., 2022).

The financial performance of sustainable investing has been subject to debate. Some proponents argue that integrating sustainability in investment decision-making leads to economic benefits, while some opponents believe it reduces investment opportunities, leading to higher volatility, lower returns, and additional costs. Research remains inconclusive, with studies presenting mixed results (Atz et al., 2023; Hamilton et al., 1993; Mallin et al., 1995; Nofsinger & Varma, 2014; Renneboog et al., 2008a). The subjectivity of sustainable investing due to the need for standards and definitions makes it difficult to evaluate and measure ethical issues, including those issues associated with screening practices and concerns about greenwashing (Sauer, 1997). Greenwashing is the practice of misleading consumers about the environmental benefits of a product or service, further compounding the problems associated with sustainable investing (Berrone et al., 2017). Moreover, the different methodologies used to create investment portfolios based on ESG factors can lead to substantially different risk and return profiles, as shown by Lioui et al. (2022).

Consequently, communicating sustainability has gained significance. Asset managers can enhance the way in which they communicate their sustainable investing practices through effective sustainability reporting, engagement with sustainability initiatives, and utilizing comprehensive sustainability measures such as ESG data, ESG ratings, and carbon footprints. Lastly, regulation is vital to sustainable investing. Various countries, including the Netherlands, the UK, and France, have enacted legislation specific to sustainable investing. In the EU, several regulations focus on sustainability, and this paper will concentrate on EU regulation, although international regulation also impacts Finnish asset managers and investors. The history of sustainability regulation includes the Non-Financial Reporting Directive (NFRD), the Corporate Sustainability Reporting Directive (CSRD), and the Sustainable Finance Disclosure Regulation (SFDR).

3. Data and Methodology

This study aims to examine how asset managers in Finland implement sustainable investing practices and address the following questions: 1) How do asset managers in Finland apply sustainable investing? 2) How do they disclose information about their sustainability and sustainable investing practices? 3) What measures do they take to prevent greenwashing? To answer these research questions, primary data were collected through an online survey.

The survey was designed with 38 questions on sustainable investing, sustainability measurement, reporting, regulation, and greenwashing. It was sent to 31 asset managers operating in Finland. The survey was anonymous and was administered in English. However, the respondents were given the option to reveal the identity of their firms and respond in Finnish to open-ended questions. Conducted in April 2022, this survey offers insights into the sustainable investing practices of Finnish asset managers. The period before April 2022 coincides with significant developments in the global financial market, as well as regulatory changes, offering insights into how this may have influenced the attitudes of asset managers toward sustainable investing in the post-COVID economy.

Our primary data sources on asset managers operating in this sector comprise company financial reports and statistics from the Bank of Finland. The combined AUM of the companies in our sample is estimated to be at least EUR 210 billion[2], accounting for AUM reported solely in Finland. Moreover, the total balance sheet of investment funds reported by the Bank of Finland in April 2022 was EUR 154 billion[3]. Although the anonymity of our survey prevents us from disclosing specific details about our sample, we present a publicly available list of companies that operate as fund managers, and alternative investment funds as an example[4]. This example of 20 firms is a good representation but does not reflect the entirety of our sample.

Our sample selection process was guided by the significance of asset managers in the Finnish market. While the largest asset managers are relatively easy to identify, selecting smaller or medium-sized asset managers proved to be more challenging due to the limited availability of AUM data. Nonetheless, we included companies deemed significant to our study, even if their precise AUM figures were not disclosed.

After collecting the data, we examined it thoroughly to ensure its validity and accuracy. We identified and excluded any missing data during the subsequent analysis. We analyzed the quantitative data from the survey and generated tables and graphs to summarize the results. We also categorized and analyzed the qualitative data gathered from open-ended questions and optional comments. Moreover, we created cross-tabulations in order to summarize our findings.

4. Qualitative results

We divided asset managers in Finland into three categories according to their AUM (Fig. 1, left), based on the question, *how many assets under management does your company have?* Large asset managers, who represent 56% of the respondents, manage over EUR 5 billion. In comparison, medium-sized (32% of the respondents) and small asset managers (12% of the respondents) handle between EUR 1–5 billion and less than EUR 1 billion, respectively.

Regarding questions about sustainable investment practices and strategy, all the respondents confirmed that they practiced sustainable investing, while most of them (96%) reported using a dedicated sustainable investing strategy[5]. Interestingly, the definitions of sustainable investing varied among the respondents. A recurring theme was the integration of E.S.G. factors into the investment decision-making process, echoing the general definition of sustainable investing (e.g., Atz et al., 2023). However, only a few respondents included profitability in their definition, a point underscored by Hyrske et al. (2020).

2 We have compiled a list of 31 companies operating in this sector in Finland.
3 https://www.suomenpankki.fi/en/Statistics/investment-funds/charts/sira-kuviot-en/sij_rah_taseen_jakautuminen_instrumenteittain_chrt_en/
4 https://www.finanssiala.fi/en/members-of-finance-finland/#fund
5 Results not reported due to parsimony.

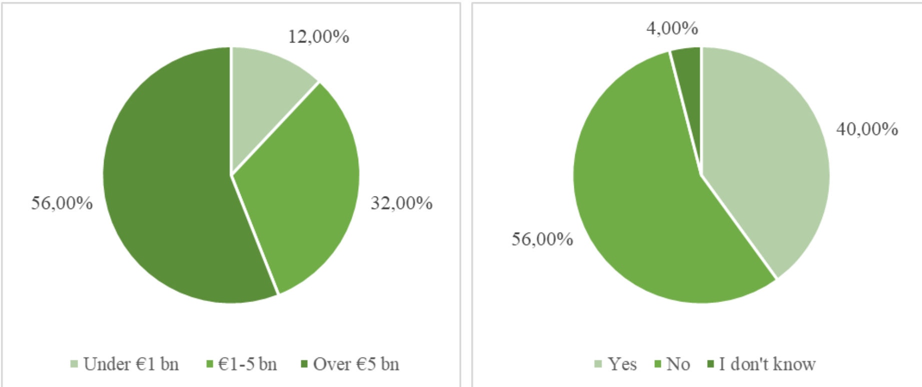

Fig. 1. Distribution and sustainable investing strategies of Finnish asset managers by AUM.
The left panel of Fig. 1 categorizes asset managers into large (over EUR 5 billion), medium (EUR 1–5 billion) and small (less than EUR 1 billion) based on their AUM, showing a predominance of the large asset managers. The right panel describes the lack of consensus among investors about what sustainable investing means, e.g., 56% of the respondents felt that there was no consensus and 4% of them were unsure.

Fig. 1 (right) presents the results based on the question, *do you think there is consensus among investors and asset managers about what sustainable investing means*? While 56% of the respondents felt there was no consensus, 40% of them believed there was, while 4% were unsure. When given the opportunity to elaborate, the respondents suggested that the rapidly evolving field, myriad interrelated concepts, and inadequate investor knowledge contributed to this perceived lack of consensus. They also mentioned the potential role of the upcoming EU regulations in creating a shared understanding of sustainable investing, confirming observations made in the broader literature, such as those observations made by Chong and Phillips (2016).

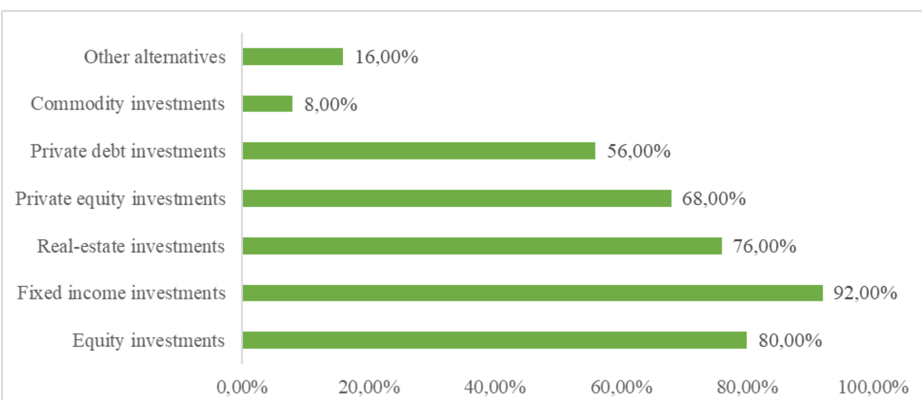

Fig. 2. Preferences in sustainable investing asset classes among Finnish asset managers.
This figure illustrates the predominance of fixed-income investments (92%) as the favored asset class for sustainable investing, followed by equities (80%), real estate (76%), private equity (68%) and private debt (56%). Commodities are the least preferred option, with only an 8% interest. This highlights the varying emphasis on different asset classes in the sustainable investing strategies of Finnish asset managers.

The asset managers were asked to identify the asset classes in which they practice sustainable investing. Specifically, Fig. 2 presents the results for the question, *in which asset classes do you practice sustainable investing?* Fixed-income investments emerged as the predominant choice (92%), in line with the recent popularity of green bond issuances[6]. Equity investments, traditionally preferred for sustainable investing (see, e.g., Bioy & Lamond, 2018), emerged as the second most popular option, with 80% of Finnish asset managers favoring them. Other popular asset classes included real estate (76%), private equity (68%) and private debt (56%), while commodities received the least interest (8%).

The asset managers found that listed equity investments were the easiest for practicing sustainable investing, primarily due to the abundance of available data and opportunities for active ownership. The second easiest option was fixed income, also due to data accessibility. Determining the most challenging asset class to invest in sustainably yielded varied responses, including commodities, private equity, and private debt. This aligns with the literature (Pastor et al., 2022) as sustainable practices are less well-developed for alternative investments compared to traditional asset classes.

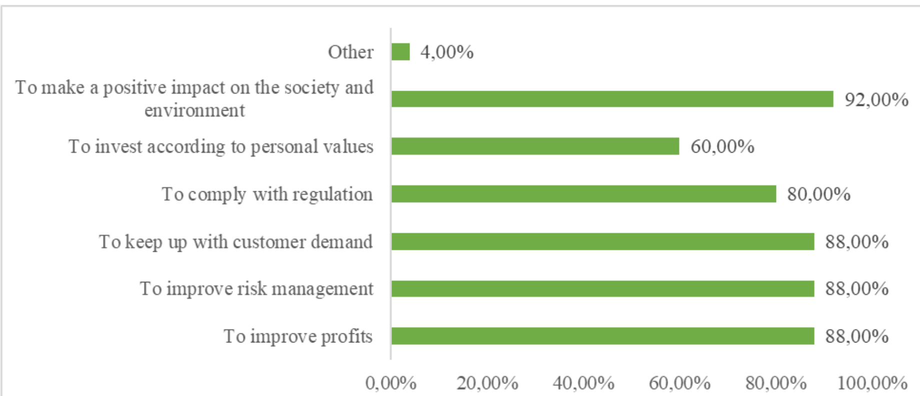

Fig. 3. Motives for sustainable investing among Finnish asset managers.
This figure highlights that the primary motive for sustainable investing was to make a positive societal and environmental impact (92%) with improving profits, risk management and responding to customer demand (88% each), along with compliance with regulations (80%) also playing a significant role. Investing according to personal values (60%) was less cited, indicating a shift in sustainable investing from purely ethical considerations to a broader focus on profitability and risk management.

Fig. 3 presents responses based on the question, *what motives do you have for sustainable investing*? The predominant motive for sustainable investing was to make a positive societal and environmental impact (92%). Other significant motives were improving profits, risk management, customer demand (88% each), as well as regulatory compliance (80%). Less popular was sustainable investing according to personal values (60%). This change in focus from ethical investing reflects the developments in the industry. It suggests that sustainable investing is increasingly seen as a means to increase profits and manage risk.

Fig. 4 presents responses based on the question, *which strategies do you use for sustainable investing*? The most popular sustainable investing strategy was ESG integration (92%). Other common strategies included negative screening (84%), corporate engagement, and shareholder ac-

6 https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/global-green-bondissuance-poised-for-rebound-in-2023-amid-policy-push-73931433

tion, as well as positive screening (80%). These findings are congruent with Finsif (2020), albeit with a higher prevalence of positive screening among Finnish asset managers than is usually reported globally (GSIA, 2021). Regarding future prospects, 84% of the asset managers believed that sustainable investing could generate excess returns in the long term, while 4% disagreed, and 12% were unsure. This optimism diverges from the mixed views in the literature (Atz et al., 2023), reinforcing the complexity and diversity of sustainable investing practices. Thus, a balanced approach to sustainable investing is essential, recognizing that not all methods will necessarily lead to financial outperformance.

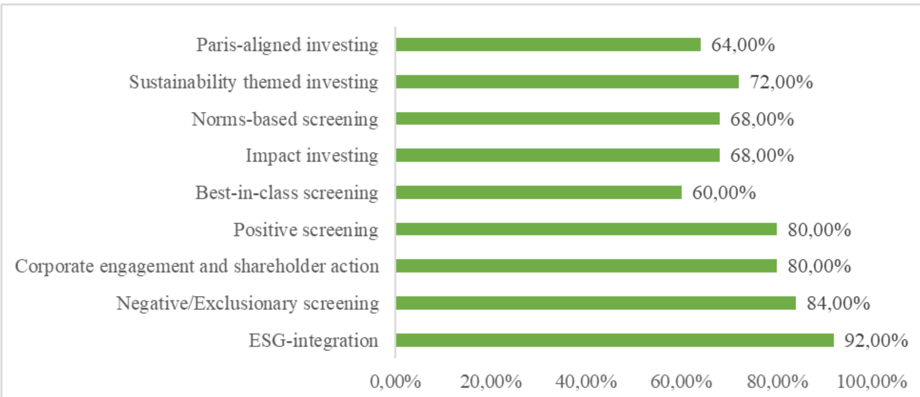

Fig. 4. Sustainable investing strategies adopted by Finnish asset managers.
This figure shows ESG integration as being the most adopted strategy (92%), followed by negative screening (84%), corporate engagement (80%), and positive screening (80%).

When asked to state the percentage of their assets under management (AUM) invested in accordance with their sustainable investment policies, 60% of the respondents indicated that 81–100% of their AUM adheres to these policies (Fig. 5, left). A further 16% of the respondents indicated that 61–80% of their AUM complies with their sustainable investing policies. A cross-tabulation of the results shows that larger asset managers are more likely to invest a greater proportion of their AUM sustainably compared to medium and small asset managers, prompting further exploration of this trend. When describing their sustainable investing company, most respondents reported having an ESG team or committee, with over half of them stating that there was a dedicated head of ESG or equivalent role. A few respondents also mentioned having ESG specialists in their investment teams. This reveals that sustainable investing practices have been integrated across many Finnish asset management companies, indicating that sustainability is not seen as a separate element but as a fundamental aspect of all decision-making processes.

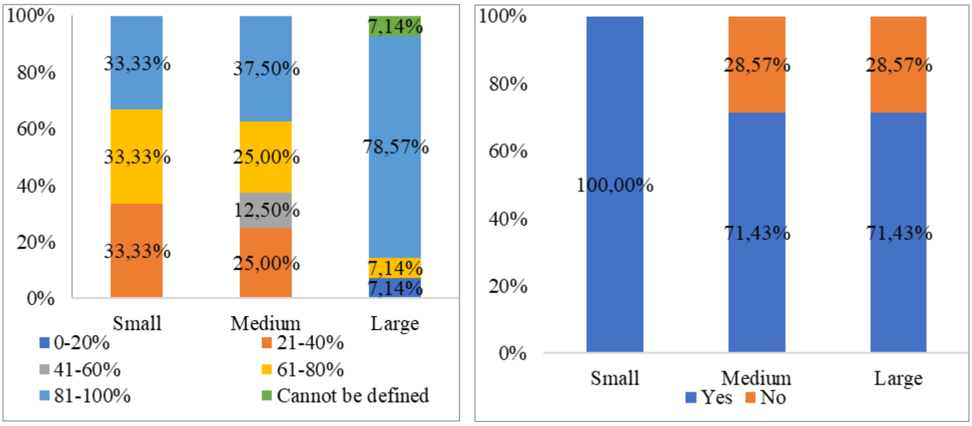

Fig. 5: Adherence to sustainable investing policies (left) and challenges in measuring sustainability (right). The left panel shows the portion of AUM invested sustainably. Larger asset managers are more likely to invest a higher proportion of their AUM sustainably, highlighting the need for further investigation into this trend. The right panel addresses the difficulty of measuring sustainability, with most asset managers acknowledging challenges due to the complexity of sustainability and varying measurement methodologies. Despite these challenges, 29% of the large and medium-sized asset managers do not find it difficult to measure sustainability and use a range of tools including ESG ratings, carbon footprint metrics and internal research to enhance their understanding of sustainability issues. This indicates a robust integration of sustainable practices in Finnish asset management companies, emphasizing sustainability as a key component of investment decision-making.

Despite a high level of sustainable investing, most of the respondents agreed that it is challenging to measure the extent to which assets called sustainable are actually sustainable. This is because of the complexity of sustainability and variations in measurement methodologies across investors and is aligned with Feifei & Polychronopoulos (2020). Interestingly, approximately 29% of the large and medium-sized asset managers did not find it challenging to measure the extent of sustainability of the "sustainable assets". With respect to their measuring processes, the responses varied significantly. Most of the respondents used ESG ratings from various providers and carbon footprint metrics, with other respondents considering factors such as controversial weapons, SDGs, and climate data. Some asset managers also conducted their own sustainability research, suggesting that internal research may provide a more comprehensive understanding of sustainability-related issues.

The most significant challenges in measuring sustainability were data availability and comparability, although differing views on sustainability also posed some difficulties. However, one respondent reported no challenges in measuring sustainability, raising questions about potential overconfidence in the face of widely recognized issues such as greenwashing.

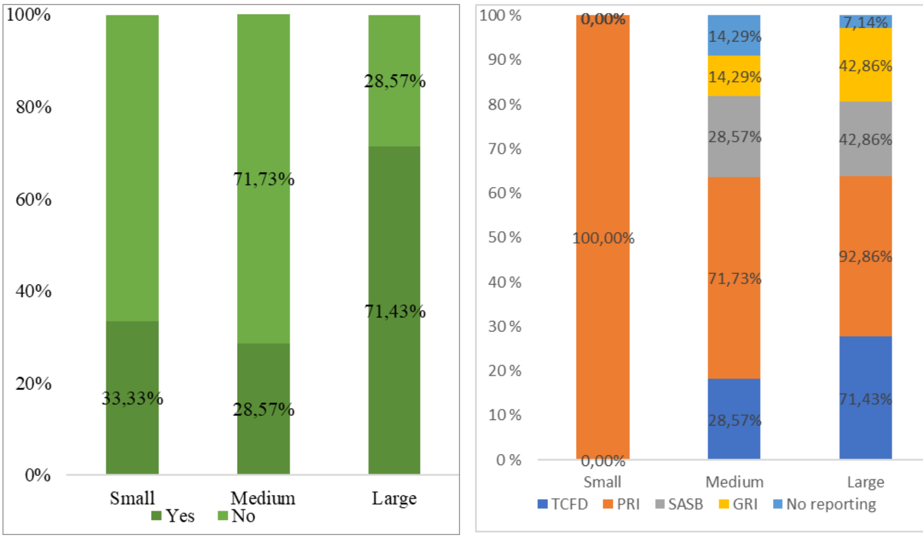

Fig. 6. Engagement with the Net Zero initiative (left) and the utilization of reporting frameworks (right). The left panel indicates that 54.17% of all surveyed asset managers have committed to the Net Zero Asset Managers initiative, with a notable higher participation rate among large asset managers (71.43%) compared to medium (28.57%) and small (33.33%) asset managers. This underscores the varying level of commitment across different asset management companies toward achieving net-zero carbon emissions. The right panel reveals that large asset managers predominantly use sustainability reporting frameworks, with 71.43% of them adopting TCFD, 92.86% using PRI and 42.86% for SASB and GRI. In contrast, the medium-sized asset managers show lower usage rates for these frameworks.

The Net Zero Asset Managers initiative is specifically designed for asset managers, and according to the question about signing this initiative (Fig. 6, left), 54.17% of the respondents signed it. When comparing the three different categories of asset managers, signing the initiative is most common among large asset managers, as 71.43% have signed it. Only 28.57% of the medium-sized asset managers and 33.33% of the small asset managers have signed the initiative.

Fig. 6 (right) shows that, overall, large asset managers use sustainable reporting frameworks more often, as 71.43% of them use TCFD (Task Force for Climate-related Financial Disclosure), 92.86% use PRI (Principles for Responsible Investing), 42.86% use SASB (Sustainable Accounting Standards Board) and 42.86% use GRI (Global Reporting Initiative). In the case of medium-sized asset managers, only 28.75% of them use TCFD, 71.43% use PRI, 28.57% use SASB, and 14.29% use GRI. Thus, sustainable reporting frameworks are more commonly used by large asset managers.

Moreover, signing the Principles for Responsible Investment (PRI) is a common commitment to sustainable investing practices. Most (87.50%) of the respondents had signed the PRI, suggesting a baseline level of commitment to sustainable investing in Finland (results not reported for the sake of brevity). However, Hyrske et al. (2020) caution that signing does not equate to responsibility and may be more challenging for smaller organizations due to resource requirements. Interestingly, all small and large asset managers have signed the PRI, compared to 71.43% of the medium-sized asset managers. Of those asset managers who have signed the PRI, only 36.36% (comprising larger asset managers) have published their PRI assessment report on their websites, indicating a potential area for improving transparency. The other sustainable reporting frameworks used were the TCFD framework (50%), SASB (33.33%), and GRI (29.17%). While 8.33% of respondents state that they use no sustainable reporting frameworks. When comparing asset managers in different categories, some differences can be found. Small asset managers only use PRI, but medium-sized and large asset managers use all the sustainable reporting frameworks mentioned.

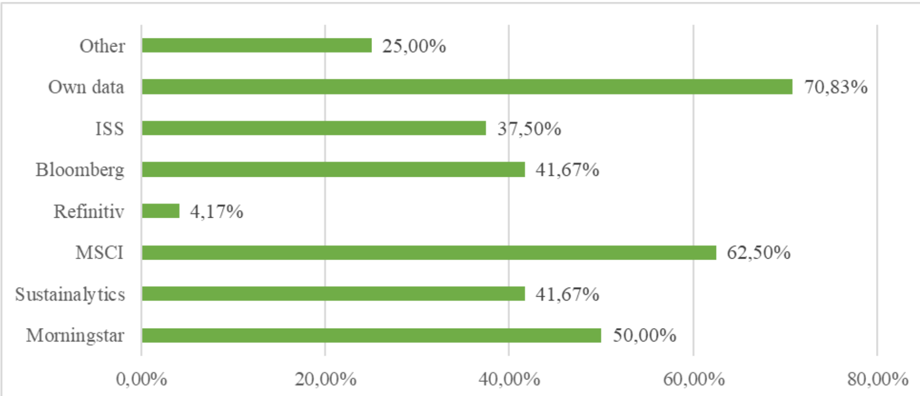

Fig. 7. Sustainability data sources utilized by Finnish asset managers.
This figure shows that 70.83% of the asset managers rely on their own data for sustainability measures, with MSCI (62.5%), Morningstar (50%), and both Sustainalytics and Bloomberg (41.67% each) as the main sources. Lesser-used sources include ISS (37.5%) and Refinitiv (4.17%), among others. The figure also indicates larger asset managers employ a more diverse range of data sources, suggesting a link between an asset manager's size and the breadth of sustainability data sources used.

Fig. 7 shows the asset managers' data sources for sustainability reporting and measuring. According to survey question 25, 70.83% of the respondents rely on their own data, 62.5% use MSCI, 50% employ Morningstar and 41.67% utilize Sustainalytics and Bloomberg. Furthermore, 37.5% of the respondents use ISS and 4.17% use Refinitiv. Other sources listed by asset managers include Upright Project, Impact Cubed, Verisk Maplecroft, Util and CDP. It is worth noting that larger asset managers use a wider variety of data sources, utilizing tools such as ISS and Refinitiv that are not commonly used by medium and smaller asset managers.

In the question about EU regulation, asset managers were asked about the sufficiency of EU regulation regarding sustainable finance. We received a mixed response: 50% of them deemed it sufficient, 16.67% thought otherwise and 33.33% were unsure. The respondents who found the regulation sufficient acknowledged its positive direction, while those respondents who were against it expressed concerns about potential confusion and lack of clarity in the sustainable investing sector. Some asset managers felt the EU regulation increased transparency but did not necessarily make investments more sustainable.

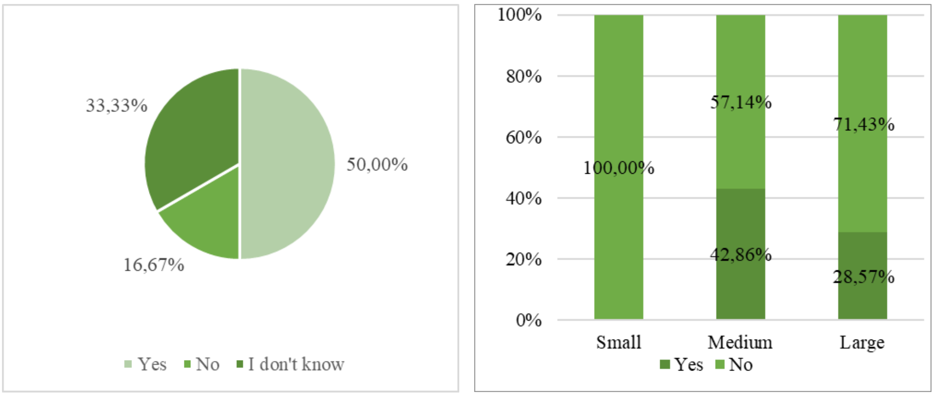

Fig. 8. Perspectives on EU sustainability regulation (left) and keeping updated with sustainability regulations (right). The left panel shows the mixed views of asset managers on the sufficiency of EU regulation for sustainable finance: 50% of them view it as sufficient, 16.67% see it as insufficient and 33.33% are unsure, citing positive views about its direction but concerns about its clarity. The right panel indicates 70.83% of all asset managers find that staying abreast of the sustainability regulations is challenging, especially for small (100%) and large (71.43%) asset managers. This highlights the difficulties posed by evolving standards and the risk of greenwashing due to the lack of uniform regulations.

When asked in question 31 if they found it easy to stay abreast of global sustainability reporting regulation, a whopping 70.83% of the respondents found it challenging. Specifically, 100% of the small and 71.43% of the large asset managers found it challenging to stay abreast of the sustainability regulations (See, Fig. 8 right). This was understandable, given the dynamic nature of the regulations and the absence of universally accepted reporting standards. This was particularly the case with the smaller asset managers who needed more resources and infrastructure to stay abreast of regulatory changes. Interestingly, the medium-sized asset managers were more confident (with 42.86% saying yes) about their ability to keep up with the regulations than their larger counterparts (with only 28.57% saying yes).

The lack of standardized regulation potentially leads to greenwashing practices, according to the responses to the question about greenwashing. 62.50% of the respondents agreed with this question, raising concerns about potential greenwashing in the European financial markets. The respondents pointed out that vague and subjective requirements could lead to varying interpretations and methodologies to measure sustainability, thereby increasing the likelihood of greenwashing.

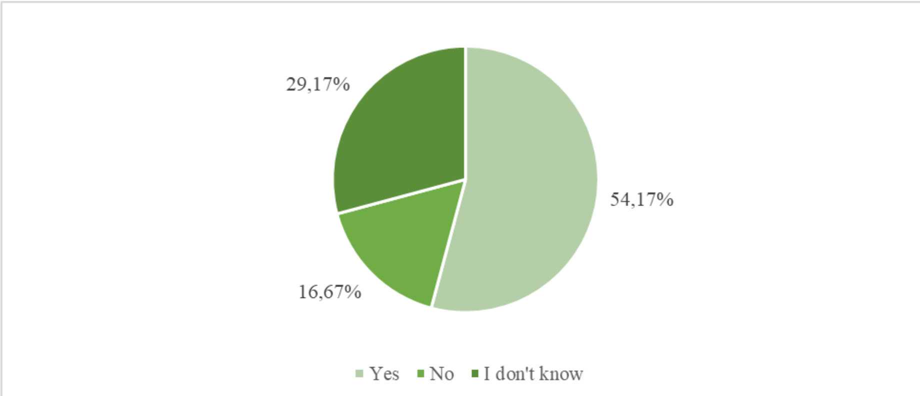

Fig. 9. Asset managers' views on greenwashing in sustainable investing.
This figure indicates that 54.17% of the asset managers view greenwashing as a current issue, 16.67% do not and 29.17% are undecided. The main concerns highlighted include the lack of universal standards and ambiguous frameworks, contributing to unintentional greenwashing and pressure to capitalize on sustainability trends. To combat greenwashing, the asset managers emphasize transparency, cautious communication, integrity, meticulous measurement and reporting, and thorough scrutiny of investments, together with consistent application of the ESG principles across organizational levels. Recommendations for improving sustainability regulations include making them clearer, simpler, and more harmonized, with precise reporting standards and objectives.

When asked if greenwashing was a current problem in the sustainable investing industry, 54.17% of the asset managers agreed, whereas 16.67% disagreed and 29.17% were uncertain, see Fig. 9. The absence of universal standards and confusing frameworks were cited as reasons for unintentional greenwashing. The temptation to align with sustainability trends and capture a market share was also acknowledged. In another question, the asset managers identified the various measures they took to prevent greenwashing. The most common measure was to maintain transparency in their actions. Other measures included avoiding overly optimistic descriptions of investment products, maintaining integrity, rigorous measuring and reporting, as well as scrutiny of all investment targets. Notably, the implementation of ESG principles was also monitored at multiple organizational levels. When the asset managers were asked about ways of improving sustainability regulations, the key recommendations were for the regulations to be clearer, simpler, and aligned with each other, with well-defined reporting requirements and methodologies. It was also suggested that regulators should have a well-defined objective for their regulations.

The overall results suggest that sustainability data are costly to acquire and can significantly hinder smaller asset managers. There should be more open discussions on sustainable investing challenges and potential solutions. Our study delivers a nuanced understanding of the sustainable investing practices of Finnish asset managers. The participants, representing a wide range of firms, showed a broad commitment to sustainable investing, although their interpretations of the concept varied. Despite the trend toward equities, fixed-income assets emerged as the most active area of sustainable investing. We found that ESG integration was widely adopted. However, the inclusion of profitability within the framework of sustainable investing was rare. While most of the respondents had a sustainable investing strategy, compliance with these policies differed, particularly between different-sized firms. The larger firms showed a higher propensity for sustainable investment.

Challenges in measuring investment sustainability due to data availability and comparability were highlighted, although few of the respondents saw this as a problem. Despite mixed views in the literature, our findings also suggest that there is optimism about the potential for sustainable investing to achieve long-term excess returns. Greenwashing emerged as an issue of concern, with the absence of universally accepted reporting standards and regulatory challenges seen as potential contributing factors. The need for clearer guidelines, operational definitions, and further dialogue was underscored to solidify the transformative trend in sustainable investing, moving beyond profitability to a more holistic, societal, and environmental impact.

The variety in definitions of sustainable investing highlights a demand for clearer industry guidelines, achievable through dialogue, education, and potential new EU regulations. The challenge of accurately measuring sustainability indicates the need for standardized and transparent methodologies to mitigate greenwashing, a pressing concern that is acknowledged by most asset managers. The insights from this study could help regulators to create more effective policies to curb greenwashing and enhance industry transparency. Special attention should be paid to smaller asset managers who might need help in navigating complex regulatory changes due to resource constraints. The observed variations in sustainable investing practices across different-sized firms underscore the need for tailored policymaking and industry standards.

Given the prevalent optimism regarding the potential of sustainable investing to yield excess returns, there is a need for further research to substantiate this optimism against the backdrop of mixed views in the literature. This study underlines the importance of open dialogue to discuss the challenges and potential solutions to sustainable investing. The study emphasizes that the industry needs to shift its focus from mere perceptions of sustainability to concrete actions that drive forward sustainable investing.

5. Discussion and Conclusion

This study focused on the sustainable investing practices of asset managers operating in Finland, examining their disclosure habits, sustainable investing strategies, and efforts to combat greenwashing. Through a detailed survey analysis of the perspectives and operations of asset managers, we gained valuable insights into the state of sustainable investing in Finland. Despite the lack of a universally accepted definition for sustainable investing and different kinds of ESG measurement frameworks among asset managers, our findings reveal a committed effort by asset managers across the board to incorporate sustainable investing into regular operational activities. Motivated by the potential for positive societal and environmental impact, improved profitability, and customer demand, asset managers address this complex challenge using a range of strategies. Our study underscored the need for accuracy and transparency in communicating sustainable practices to prevent misunderstanding and potential greenwashing.

The study highlighted a key trend among Finnish asset managers: their preference for positive screening compared to the negative screening that is globally prevalent. Also, we found a significant emphasis on fixed income rather than equity investments. This deviation from global trends and the inclusion of all asset classes in sustainable investing practices speaks to the evolving nature of Finland's sustainable investing. The different practices of asset managers based on their size were evident. The larger asset managers demonstrated more proactive communication about sustainability, were committed to more initiatives, and disclosed more information online. This could potentially be explained by greater resources and increased public scrutiny, which compelled large asset managers to adopt robust and sustainable practices. At the same time, the smaller asset managers face obstacles to procuring costly sustainability data, which may make it difficult for them to effectively communicate their sustainable investing practices.

Our research also highlighted the ongoing challenge of keeping up with the rapid changes in global sustainability-related regulations, particularly for smaller asset managers. The current EU regulation was met with mixed reviews from the asset managers, with only half of them considering it sufficient. While some asset managers view the regulation as a positive step, other asset managers criticize it for its broadness, irrelevance and potential to cause investor confusion.

Despite limitations such as our interpretation of the survey questions, potential survey oversights, and skewed representation in the various categories, the study makes a significant contribution to understanding sustainable investing practices in Finland. The study's findings are a call to action to increase transparency, promote the equitable distribution of resources, and simplify regulations to enable a sustainable investing environment that lives up to its promise. Future research should delve deeper into the non-financial aspects of sustainable investing and the differences between asset managers of various sizes. With sustainable investing regulation constantly evolving, examining how such regulation is implemented in practice would be of significant interest. Despite the absence of official definitions, exploring greenwashing would also add valuable insights.

In conclusion, Finnish asset managers actively engage in sustainable investing, with the aim of making positive contributions to society and the environment. While they navigate the challenges posed by both greenwashing and evolving regulations, their commitment to sustainable investing is evident in their efforts to achieve transparency, alignment with global initiatives, and robust sustainability reporting practices. The journey ahead, as they strive to achieve ambitious sustainability targets and combat climate change through sustainable investing, promises to be an interesting one.

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