Sustainable Finance in the Danish Financial Sector

An investigation of what the epistemological differences between finance and sustainability mean for sustainable finance.

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Master's Thesis

Copenhagen Business School

MSc in Business Administration and Philosophy

Hand-in Date: 17/5-2021

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Society and Communication

Amount of Characters: 228.758
Amount of Pages: 101

Abstract

Sustainability is getting much attention, and companies have to adjust to this focus to become sustainable and socially responsible. Finance has adapted to this sustainability focus as well, and sustainable investments are perceived beneficial not only to sustainability but also to generate a financial return. The purpose of this master's thesis is to get an understanding of how epistemological differences between finance and sustainability may impact the incorporation of sustainability in financial practices. Especially with a focus on the Danish financial sector and their use of sustainability tools such as ESG-ratings, negative screening and active ownership. The thesis will also examine how the Danish financial sector perceives its responsibility and what role sustainability plays in that perception. Finally, explore the EU Taxonomy´s influence in sustainable activities and how it might resolve the complexity in sustainable finance.

This research is based on interviews conducted with six representatives from the Danish financial sector, three pension funds and three investment banks. All of the respondents were part of their company's sustainable investment department and had specialist knowledge of how the Danish financial sector works with sustainability. The interviews are analysed using a theoretical foundation based on Thomas Lagoarde-Segot and his outline of the epistemologies prevalent in finance and sustainability. These differences are most significant when it comes to the social context of actions, where financial epistemology concentrates on the empirical observation that can be generalised. In contrast, sustainability epistemology is concerned with an action relative to time and space. The interviews showed that the Danish financial sector places sustainability highly regarding their responsibilities but still below their primary responsibility; financial returns. They have, however, spend much focus on sustainability and take part in promoting sustainability through their investments. Sustainability is integrated into their practices and is considered throughout their portfolios and with increased attention in their specific sustainability portfolios. The results suggest that some sustainability aspects are not accounted for in the way sustainable finance is practised in the Danish financial sector due to epistemological differences between sustainability and finance. There seems to be a lack of frameworks the financial sector can use as guidelines for implementing sustainability in their financial practices.

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1 Introduction

Sustainability is getting a lot of attention in the Danish financial sector, and the investors have a lot of focus on sustainable finance. The Danish financial sector has financed green activities through loans and investments equivalent to 400 billion kr. in 2020. It is estimated that it will grow to 700 billion kr. to help achieve the danish objective of a 70% CO2 reduction by 2030 (Finansforbundet, 2020). Some Danish investors are even ready to make investments with a lower financial return if it has a significant sustainability impact (Aabo, 2019). Despite investors' willingness to get a possible lower return on investment, the perception of sustainable investments' ability to get higher profit has also changed and is now also perceived to get a better return on investment (Kotsantonis et al. 2016).

This attention to sustainability has increased the expectations of businesses to make sustainability changes (Vildåsen et al., 2017), and intergovernmental organisations such as the UN and EU have initiated different guidelines to help businesses become more sustainable. In 2022 the first part of the EU Taxonomy will come into force, a classification system for sustainable activities that should make it easier for businesses and investors to identify sustainable activities (Lucarelli et al., 2020). Thus, sustainability is high on the agenda in most businesses and intergovernmental organisations and investors. Among respondents from the Danish financial sector, there is a belief that financial institutions should be at the forefront when it comes to sustainability since they have the means to make a difference (Appendix A, AP Pension).

The transformation to a more sustainable focused investment world is perceived as a win-win situation for investors since they can create a better return on investment while simultaneously making the world a better place. The Danish financial sector can be seen to be fully engaged in this added responsibility towards sustainable investment and spend many resources in marketing on their sustainable performance. This can, for example, be seen in Danica/ Danske Bank, which advertises that their members get superpowers by investing their pension in sustainable products (Danica 2021).

Historically, the financial academic literature focused on sustainability and social responsibility related to how it can contribute to making financial returns (Lagoarde-Segot, 2019). This way of looking at sustainability in finance is influenced by the financial discourse and how finance gains knowledge about the world, i.e. their epistemological foundation (Lagoarde-Segot & Paranque, 2018). This opens a discussion on how knowledge is gathered in finance and sustainability, respectively, since it can influence how sustainable finance is perceived. It is relevant not only in academia but also in relation to how the financial sector operates and if there are indications of one of the epistemologies being more dominating than the other. The connection between how sustainable finance and discrepancies between the epistemologies is presented by Lagoarde-Segot and colleagues and how the Danish financial sector is operating is relevant to determine if this discrepancy significantly influences how sustainable finance is practised.

This master's thesis will not investigate whether or not sustainable investments can compete with non-sustainable investment but instead focus on how sustainability can be incorporated in financial practice by looking at how the financial sector operates within sustainability and social responsibility. More specifically, how the Danish financial sector has incorporated tools and methods related to sustainable finance such as Environment, Social and Governance (ESG) ratings, Socially Responsible Investments (SRI) and active ownership. This will be with a primary focus on how epistemological differences between finance and sustainability can impact and potentially challenge the incorporation of sustainability in finance. Furthermore, how complexity and responsibility plays a part in how sustainability can be incorporated in finance and how frameworks like the EU taxonomy for sustainable activities can be beneficial.

1.1 Problem Area

There is a consensus from the Danish financial sector that finance and sustainability can easily be combined since there seems to be evidence that sustainable investment gives positive returns of investment, often presented as a Win-Win situation. This has led the sector to focus on sustainable frameworks as part of their financial evaluation of investments, with little thoughts on the fundamental difference between sustainability practises and financial practises. The Danish financial sector uses some of the prevalent tools in sustainable finance, such as ESG-ratings, SRI and active ownership, to include sustainability factors in their investment evaluations.

The incorporation of sustainability factors simultaneously represents a way to show responsibility beyond creating financial profit for their customers. However, as finance and sustainability are fundamentally different, it is at risk of compromising one of them. Therefore do this master's thesis seek to answer the following problem statement.

1.2 Research Question

How is the Danish financial sector able to incorporate sustainability in their financial practices, given the epistemological differences between finance and sustainability?

Sub Questions:

- To understand how epistemology in finance complements or conflicts with epistemologies in sustainability, both when it comes to the environment and social issues?
- To investigate how the Danish financial sector takes sustainability measures into consideration in their financial activities.
- To examine how the Danish financial sector perceives responsibility in their sector and what role sustainability plays in this perception of responsibility.
- To explore the complexities in sustainable finance and how the upcoming EU Taxonomy for Sustainable Activities could help resolve the complexities through a common framework for sustainable finance.

2 Methodology

Since this research is centred on understanding and communicating the fundamental difference between financial and sustainable epistemology, it is essential to understand what epistemology is and how it differs from ontology. Ontology is based on The being, first presented by Aristotle, which can more precisely be understood as studying the essence of a given phenomenon (Jacobsen et al., 2015). Ontology is divided between subjective ontology and objective ontology. Objective ontology argues that the real world is presented to us in a way where we can interpret it in a real way. Subjective ontology argues that the world is presented to us individually, which means that we each have different interpretations of it. On the other hand, epistemology is concerned with the nature of knowledge and is concerned with human's cognition of the phenomenon. It seeks to explain and can be understood as: How can we know reality (Jacobsen et al., 2015)?

2.1 Social Constructivism and Institutionalism

Social constructivism seeks to question and understand concepts and knowledge that we take for granted in our daily life. According to social constructivism, our sensemaking or interpretation of the world is never based on objective facts on the world. Instead, what we define as objective facts are defined and constructed by our social context. Social constructivism even claims that if there exists an objective truth in the world (ontology), then we will not be able to understand it since human actors perceive the world through the language and concept they use in their daily routines, which are socially constructed, but which is often perceived as truth (epistemology) (Jacobsen et al., 2015).

Social constructivism methods differ from other science fields, such as positivism, which uses logical empirical tradition and where everything has a causal effect. This method argues that the empirical data reflect the real world, and theories should be used to formulate statements about this real world, which can be tested and measured (Experimental science) (Jacobsen et al., 2015). On the other hand, social constructivism argues that unambiguous causes and effects do not make up the real social world. Social constructivism criticizes logical empirical tradition research for not including actors agency, reflexivity and autonomy, which all play a crucial part in the real social world (Esmark et al., 2005). This can also be explained in the following way:

> Instead of reading the relationship between structure and actor like cause and effect, social constructivism thematizes the social world as a relationship between possible and limiting structures and reflecting subjects that can avoid or change structures. Social constructivism is, in other words, not models on cause and effects or dependent and independent variables (Esmark et al., 2005: 10, our translation).

This master's thesis is based on social science, which centres around how the world is perceived rather than objective, seeking to describe the real world. By following the social constructivist approach, this thesis will show how knowledge and understanding of sustainability are socially constructed in the Danish financial sector, which in this thesis is analysed through Richard W. Scoot concept of an institution as a social structure that consists of regulative, normative and cognitive elements which decide the rules of the game in the institutions. “Institutions are comprised of regulative, normative and cultural cognitive elements that, together with associated activities and resources, provide stability and meaning to social life” (Scott, 2008: 48).

Institutions as regulative refer to how intuitions consist of formal and informal rules, which define what right and wrong behaviour is. The normative element refers to that institutions consist of norms and values in the society, which decides what institutions should seek to do and what they ought to do (Scott, 2008). The cultural elements are made up of the framework of understanding, opinion and knowledge that the society is based upon, which we use to interpret action and situations. The two last elements of institutions (normative and cultural cognitive) differ from the regulative elements since they incorporate social action instead of only rational action based on the actor's role. The three elements mentioned above of institutions are, according to Scott (2008), what decides what is possible for the institutions, both when it comes to legal elementals and also based on what is socially acceptable.

Another theory that can be found in institutional theory is path dependence, presented by Paul Pierson (Pierson, 2004). He describes path dependence as “Social processes that exhibit positive feedback and thus generate branching patterns of historical development” (Pierson, 2004: 21), which means that institutions follow patterns that are already established as ground rules. The more these ground rules are established, the more are the institutions reluctant to change their patterns.

Combining the theory of social constructivism with the theory of institutionalism presented by Pierson and Scott, this thesis investigates the Danish financial sector as an institution created by regulative, normative, and cultural cognitive elements that have become reluctant to change over time. This socially constructed understanding of how the world is connected becomes the truth that they seek to follow and defend. This should lead this master's thesis to illustrate some of the fundamentals problems that occur when the sector seeks to incorporate sustainability with finance.

2.2 Presentation of Research

Since this master's thesis seeks to understand how the Danish financial institutions incorporate sustainable finance, this thesis found it necessary to use qualitative research through fieldwork rather than quantitative research, which seeks to test and validate a specific hypothesis. This qualitative research is based on interviews with six financial firms in the Danish financial sector, which is used as primary data.

The interview form was a semi-structured interview, an interview form that follows a specific path and requires that the interviewer ask questions worth elaborating. Semi-structured interviews are made up of pre-established questions before the interview takes place that needs to be covered during the interview, but not making the interview questions too restrictive not to follow another path (Brinkmann & Tanggard, 2010). This method seeks to give the interviewer control over the interview while at the same time making sure that the respondents freely can answer the questions the way they want.

All of the interviews were conducted in Danish, the mother tongue of the respondents, except the interview with Sandra Metoyer from AP Pension because Danish is not her mother tongue; hence English was a better common ground. The language was chosen to make a more fluent dialogue with the respondents. While Brinkmann and Tanggard recommended that the researcher and respondents should be physically placed in the same room, this was not possible due to the Covid 19 restrictions, which led the interview to take place on electronic platforms such as Microsoft Teams, except the interview with BankInvest, which after agreement by both parties took place at their workplace.

2.3 Interview Strategy

The interview guide was based on our knowledge of how the financial sector works with sustainable finance in general from our research that can be seen in the Overview of Theories and Concepts section (3). The interview was structured into five topics based on this research in order for the researchers to make sure that all the topics were covered. This master's thesis had chosen to research theories and facts about sustainable finance before the interviews took place, even though some theories from qualitative research states should not be based on predetermined knowledge before the interviews take place due to confirmation bias. This was done in order for the authors of this master's thesis to be able to have a deeper conversation about sustainable finance during their interviews so that the interview would not miss any critical information. The five topics that were covered during the interviews can be seen below:

Overall strategy: This topic was selected to get the respondents to open up. The respondents were asked general questions on their job and how the company combines sustainability and finance.

ESG: This part of the interview was centred around how they collect sustainable information on firms through ESG-scores. Here the respondents were asked how they get this information and what sort of knowledge an ESG-rating gives them, which was later elaborated with a question on ESG´s shortcomings.

Social Responsibility: This topic was selected to cover their responsibility as a financial organization. In this part of the interview, the respondents were asked how they interpret their social responsibility to promote sustainable investments and to whom they have a social responsibility while including questions on how they use or interpret impact investment.

Active ownership: This part of the interview consisted of a dialogue with the respondent's to understand how they see themselves as active owners. At the same time, also understand how they use active ownership in their investments.

Perception of the upcoming EU regulation: In this topic, the respondents were asked what they expect of the upcoming EU Taxonomy for Sustainable Activities and how the ongoing, at the time, Disclosure regulation will affect their future practice with sustainable finance.

The general idea behind the guide was to begin each topic with a preliminary question on the topic, which for example, were: "What do you associate with social responsibility for companies in your sector?" or "What do you associate with impact investment?". After the preliminary questions followed exploratory questions and follow-up questions in order for the respondents to elaborate their opinions on each topic.

2.4 Presentation of Data

As explained in the research question, this master's thesis seeks to explain how the Danish financial sector works with sustainable finance, which means that in order for this thesis to explain the Danish financial sector, it was necessary to find the right respondents in order to justify that the data represents the financial sector. Therefore, the writers of this thesis have chosen to question investment companies, banks, and pension funds to get insights from different aspects of the Danish financial sector. This thesis has chosen to conduct six interviews from different financial organizations in the Danish financial sector with people in the financial organization's sustainable finance department to get an adequate number of responses. These six respondents can be seen in Table 1 on the next page.

Table 1:

Letter in Appendix	**Company**	**Name**	**Job description**	**Length of interview**	**Date of interview**	**Location of interview**
A	AP Pension	Sandra Metoyer	Head of Responsible Investment	26 minutes 56 seconds	11/02 2021	Online - Teams
B	BankInvest	Mads Berendt Søndergaard & Linnea Haahr Rindorf	Head of Responsible Investments & Responsible Investment Specialist	41 minutes 20 Seconds	24/02 2021	BankInvest's Office
C	PBU	Rasmus Juhl Pedersen	ESG ansvarlig	62 minutes 56 seconds	25/02 2021	Online – Teams
D	PKA	Louise Aagaard Jensen	ESG–Manager	44 minutes 20 seconds	04/03 2021	Online - Teams
E	Sydinvest	Morten Imsgaard	ESG-chef	52 minutes 55 seconds	16/03 2021	Online - Teams
F	Danske Bank/ Danica	Mads Steinmüller	Senior ESG Specialist	48 minutes and 51 seconds	19/03 2021	Online - Teams

2.5 Ethics of Research

Qualitative research requires that the researcher consider ethical issues since this research method puts value-laden and private opinions out in public (Brinkmann & Tanggard, 2010). This is perhaps not as important in this research since the interview did not concern information or thoughts that could be considered private. However, ethical considerations are still necessary since this research uses the respondent's answers to represent the firm's sustainability policy which could harm the respondents if they misspoke. This master's thesis has found it necessary not to make the respondents anonymous, so the empirical data is valid; however, we have made it possible for the respondents to see the quotes we would use before using them in the analysis. If the respondents did not like or regretted their quotes selected, would the quotes not have been used. However, the respondents did not make any radical changes to the quotes after they were sent, which suggest that they agree with what was being said.

2.6 Transcription Method

The transcription of the interviews was made shortly after the interview took place, which Brinkman and Tanggaard (2010) argue is essential for the transcriber to remember some of the meanings behind what was said. The authors of this master's thesis are well aware that some of the meanings behind a statement can go missing in translation. However, we had sought to translate as closely as possible when trying to translate the quotes from Danish to English and only changed the quotes when the language barriers between Danish and English were too heavy.

After the transcription of all the interviews were made, followed coding of the interviews by dividing the interviews into different topics to reduce the large text segment into generalized topics, plus some other subcategories, such as win-win strategies. This was done to get an overview of what has been said on the different topics.

2.7 Limitations of Research

It is important to note that these data samplings did not include people in the financial department but with people in what can be considered the sustainable part of the firm. Interviews with people in the financial part of the organization could be expected to have a different opinion and perhaps be more sceptical towards sustainability since their jobs have a more financial focus. However, this thesis has chosen to investigate how they integrate sustainability in financial practice. Therefore, this thesis found it more valuable to interview a person that helps the firms translate the link between sustainability and finance.

Another problem of this research that could be considered is that this thesis is based on research with only six firms in the Danish financial sector, which means a large proportion of the Danish financial sector is not covered in this research. However, qualitative research is based on the assumption that investing a smaller proportion of a given research area can collect valuable insights if the researcher describes rather than measuring a given research area. This research has given a smaller proportion of the financial sector a platform to elaborate how they perceive a given research area. However, it would be wrong to see this research as a final and complete picture of sustainable finance in the Danish financial sector since the data do not cover the entire sector.

3 Overview of Theories and Concepts

3.1 Epistemological Differences between Sustainability and Finance

This master's thesis will use the conception of epistemology in finance to understand the way finance is functioning and developing; this in potential contrast to the epistemology within sustainability and sustainable finance in particular, as described by Thomas Lagoarde-Segot (2019). According to Lagoarde-Segot, financial theory is based too heavily on a deductive method of inquiry and has a determinate account of phenomena, which cannot contain the more social aspects of sustainable finance that take the human agency into account in their epistemology (Lagoarde-Segot, 2019). This is to stress the complexity in sustainable finance itself and underline the difficulties associated with combining the two fields in a way that does not compromise one of them too heavily.

Sustainable finance is, in essence, trying "to disconnect capital accumulation from capital allocation, by establishing a circular relationship between savers, entrepreneurs and investors – while also internalizing social and environmental externalities in the process" (Lagoarde-Segot, 2019, p. 2). This results in a challenge for the financial epistemology as it has to, in order to incorporate sustainable finance, on the one hand, ensure that the investment is capable of generating a financial return, and on the other hand, include social criteria in capital owners' decision making (Lagoarde-Segot, 2019). Mainstream finance has been resilient to new theories and knowledge, emphasizing that the epistemology of mainstream finance is hard to change (Caré et al., 2018). When academic finance struggles to grasp new concepts such as sustainable finance and social finance, the mismatch between finance epistemology and sustainable epistemology becomes evident (Lagoarde-Segot, 2019). This mismatch stems from the source of knowledge in mainstream finance is based on moving sequentially from a set of assumptions to a statement supported by empirical regularities; this implies that in finance, one can only seek the cause of an event by another perceived event, for instance, can a firm's return on equity only be explained by other data points (Lagoarde-Segot, 2019). This perception limits mainstream finance to explain events by using other data points constituted in the financial understanding of knowledge, excluding factors at an ontological level such as the human agent who finds this given financial event or phenomenon obsolete or of less importance regarding measuring a firm's performance, which could be of importance to understand the event (Lagoarde-Segot, 2019).

Where mainstream finance is trying to conceptualize market performance and corporate performance based on sophisticated statistics that only change in terms of number, magnitude and quantity; sustainable finance takes a different approach in the form of including extra-financial factors in order to broaden the mission of the firm (Lagoarde-Segot, 2019). Sustainable finance then measures the firm's performance in more qualitative terms; this poses the challenge of not determining company performance based on the predetermined variables prevalent in mainstream finance, diminishing the stable reference to the measurement of companies (Lagoarde-Segot, 2019). Even within sustainability, there are diverging epistemological directions as environmental issues and performance assume objectivity. In contrast, social aspects are a comparative approach of context-dependent analysis of the social situation before it can be determined as being socially sustainable (Vildåsen et al., 2017). For example, it is necessary to look into the cultural and social structures to know the impact a social investment has when for example investing in infrastructure in an underdeveloped country (Vildåsen et al., 2017) It is a challenge within the science of sustainability that two main pillars, environment and social, have different epistemological foundations but are usually treated and analyzed clustered into one concept without acknowledging this difference (Vildåsen et al., 2017). This leads to a clustering of value constructs within sustainability, which is grounded in different epistemological assumptions, resulting in a clustered value conception in sustainability that lacks consistency as it combines different approaches to knowledge (Vildåsen et al., 2017).

The challenge of clustering the values of the different pillars in sustainability is that when it comes to the social aspect of sustainability, the positivist approach, prevalent in environmental measurement, is problematic as it makes the social an object without considering the context which is essential to understand the social value (Vildåsen et al., 2017). At the same time, there is a tendency for those who are constructivist-oriented in their understanding of the value in sustainability that they understand the environmental dimension as a social stakeholder (Vildåsen et al., 2017). It is problematic as epistemology within natural science usually assumes objectivity, meaning that social aspects should not influence the analysis and understanding; this can result in ideologies and values that can influence the understanding of environmental value and performance, for instance, in decision-making (Vildåsen et al., 2017). Hence, the epistemological standpoint can significantly impact the perception of value in sustainable finance and stresses the complexity of the field.

When sustainability and finance are combined to sustainable finance, it is an example of the financialization of sustainability because it is an example of a social phenomenon where finance has extended its influence (Lagoarde-Segot & Paranque, 2018). The definition of financialization that will be referred to in this master's thesis is "a complex network of political, economic, technological and cultural processes by which finance extended its influence in social life" (Lagoarde-Segot & Paranque, 2018: 82). Financialization means that financial mindset and values influence social concepts, in this case, sustainability. For instance, a focus on maximizing shareholder value, which would result in sustainability, will have to accommodate this mainstream financial mindset (Lagoarde-Segot & Paranque, 2018). The change in how sustainability will be on the premise of finance rather than its own can be linked to "sociological studies presenting financialization as a shift in individuals' subjective understanding of their socioeconomic roles" (Lagoarde-Segot & Paranque, 2018: 83). This means that once financialized, the perception of sustainability will have changed in the social context and understanding of it, which means sustainability will be incorporated in the financial ideology and discourse, rather than constitute a compliment to finance in sustainable finance (Lagoarde-Segot & Paranque, 2018). As a result, the financial epistemology will be prevalent in the financial way of looking at sustainability, and with financialization, a general perception of sustainability will be influenced by financial epistemology (Lagoarde-Segot & Paranque, 2018). However, this leads to a dangerous conceptual reduction of sustainability because concepts without immediate appearance to the object are not considered in the financial discourse (Lagoarde-Segot & Paranque, 2018). This means that financialized sustainability is reduced to analysing empirical events without considering the social context.

3.2 Sustainable Finance

Sustainable finance is a concept within finance that focuses on supporting sustainable development (Schoenmaker, 2017). It has been gaining more and more attention in recent years and is usually associated with environmental, social and governance factors (ESG) (Bril et al., 2020), but it contains a lot more than just ESG. Sustainable finance is the broad term containing several concepts ranging from SRI to active ownership and impact investment (Bril et al., 2020). Suppose mainstream finance is to be as it is described in contemporary textbooks. In that case, it focuses mainly on profit and economic gains, and the financial agent should always adopt practices that enhance their economic bottom line. There is a risk that society's sustainability issues will be neglected in favour of these economic ends

(Sandberg, 2018). Hence the increased focus on sustainable finance takes such sustainability issues into account and increases the attention to the connection between finance and society (Sandberg, 2018). Ethical investments are the oldest term related to sustainable finance. It was started by church investors in the U.S., U.K. and Australia, setting some ethical parameters on their investment portfolios (Sparkes & Cowton, 2004).

Sustainable finance can be divided into three phases with a different scope of sustainability and different tools and frameworks required in each phase (Schoenmaker, 2017). The first phase Schoenmaker (2017) calls *Profit maximization while avoiding 'sin' stocks.* This is a step where financial investors avoid investing in 'sin' companies that have a significant negative impact on either of the sustainability factors. This exclusion could, for instance, be based on the carbon footprint of the company, or it could be an exclusion of tobacco companies if these characteristics do not comply with the values of the investor (Schoenmaker, 2017). The tool that can be related to this first phase is SRI and negative screening that is divesting in companies that do not comply with the norms and values of the investor (Bril, 2020). SRI will be further described later.

The second phase is called internalization of externalities to avoid risk; this implies that financial institutions incorporate the negative social and environmental impacts into their decision-making (Schoenmaker, 2017). This phase includes non-financial factors, such as social and environmental issues, in the valuation of an investment, but with a lower weighting than the financial value of the investment; this combination of values is what Schoenmaker (2017) calls total value. However, as financial value prioritizes this calculation of total value, a significant negative impact on either a social or environmental aspect can be outweighed by significant financial gains (Schoenmaker, 2017). ESG-ratings is commonly used to consider non-financial factors when making investment decisions (Bolton et al., 2020). Hence, ESG-ratings measure a company's environmental, social, and governance performance; it constitutes a measurement of the company's sustainability performance and can indicate the sustainability risk associated with investing in them(Bolton et al., 2020).

The third and final phase is called Contributing to sustainable development while obtaining financial viability. *It is* a move from risk to opportunity, in the sense that it is no longer about measuring the sustainability risk associated with an investment but the opportunity to contribute to sustainable development while obtaining financial gains (Schoenmaker, 2017).

Here the focus is changed from primarily financial gains to supporting sustainable development while being financially viable, which means as a minimum to preserve capital, unlike the previous phases where financial gains took priority (Schoenmaker, 2017). This is the final step and the one where sustainability has the most prominent role. Sustainable finance here is a situation where the sustainability impact of an investment is significant and at the same time generates a competitive financial return, which seems to be a win-win situation for finance and sustainability.

Sustainable finance is operating with a different time horizon than mainstream finance and financial agents, as mainstream finance has a short-term focus on financial gains (Bril et al., 2020; Polman & Tómasdóttir, 2020). This short-term focus increases as the average holding for shares is now four months compared to 8 years in 1960 (Polman & Tómasdóttir, 2020). On the other hand, sustainable finance has a longer-term perspective on investing. It focuses on the long-term impacts of the investment and the potential long-term benefits of the investment (Polman & Tómasdóttir, 2020). In order to achieve the goals of sustainable finance, this long-term approach is necessary as the changes and the impact that the investments seek to achieve takes time; therefore, investors must start to have a more long-term focus (Polman & Tómasdóttir, 2020). According to Polman and Tómasdóttir (2020), the long-term perspective in sustainable finance does give a higher return than the short-term approach dominant in traditional finance. Furthermore, it is a risk assessment to take sustainability factors into account when investing. Companies that excel within sustainability are less likely to be involved in commercial and environmental scandals, which could hurt the reputation and the valuation of that company (Bril et al., 2020).

As part of the United Nations (UN) Global Compact and to support the focus on sustainable investment, the UN have supported six principles for responsible investment (PRI) which investors develop for investors to help the development of sustainable finance (The United Nations, 2017). The PRI's mission is to secure a sustainable global financial system, as they believe it is necessary to secure long-term value creation and benefit the environment and society as a whole (The United Nations, 2017). PRI is contributing to sustainable finance as a whole by guiding investors to how they can become responsible investors, for instance, by following the six principles for responsible investment (The United Nations, 2017). These six PRI's are stated as:

> 1 We will incorporate ESG issues into investment analysis and decision-making processes. 2. We will be active owners and incorporate ESG issues into our ownership policies and practises. 3. We will seek appropriate disclosure on ESG issues by the entities in which we invest. 4. We will promote acceptance and implementation of the Principles within the investment industry. 5. We will work together to enhance our effectiveness in implementing the Principles. 6. We will each report on our activities and programs towards implementing the Principles (The United Nations, 2017).

Each of these has some activities attached to them to help investors act on the PRI's and help them implement the PRI's. This means that if a financial institution signs up to follow the PRI, it has a foundation to what to do, as in using ESG factors in decision-making and disclosure, but it also has some guidelines as to what sustainability is (The United Nations, 2017). The PRI is thereby an attempt to promote sustainable finance with much attention to ESG. Financial institutions can sign up to show support and intention to follow the PRI's as a way to acknowledge the need for a focus on responsible investing. However, there is no obligation to follow the PRI's once financial institutions have signed up for them (UN Global Compact, 2021). Hence it does not constitute a regulatory framework but rather some guidelines made by the financial sector to become responsible investors.

3.3 Socially Responsible Investment

Socially responsible investments (SRI) are a concept of investors taking social and environmental factors into account when making investments (Gössling & Buiter, 2017). SRI can be expressed by excluding some stocks that are perceived as not living up to the standards of the investor's morality or political stance; hence the investor is avoiding the stocks that do not comply with the moral beliefs of the investor (Heinkel et al., 2001). The reasoning behind using SRI and the increased use of SRI in recent years is, on the one hand, to stay clear of unsuitable investments by avoiding investing in these companies that do not live up to the criteria set by the investor, and then there is a belief among investors that responsible companies also perform better in financial terms (Gössling & Buiter, 2017). This indicates that the investor's responsibility only goes as far as the increased returns on investment, and not like impact investments, with the aim to promote social responsibility as such. SRI is then a way to stay clear of the 'sin' industries. However, it can also be based on an ESG analysis and avoiding to invest in the companies with evident flaws in one or more areas that the investor finds too significant and associate with a too high risk, and then choose not to risk investing in (Gössling & Buiter, 2017). This avoidance of investing in some companies due to them not complying with the moral and ethical values of the investor is also called negative screening (Bril, 2020). The divestment of companies or sectors is usually initiated by pressure from outside influences such as NGO's. However, exclusion decisions depend on many factors, including values of the beneficiaries, investment beliefs, social norms and, in some cases, legal or political considerations (Bril, 2020).

Another SRI approach is to have an active engagement with the company invested instead of avoiding them (Broccardo et al., 2020). This differentiation between the socially responsible approaches to investments does Broccardo et al. (2020) call *exit versus voice,* where the exit is equal to the description by Heinkel et al. (2001), where the investor excludes certain companies due to lack of compliance with the moral values of the investor. On the other hand, voice is a more active engagement with the company invested in, by, for instance, voting for initiatives or board members more aligned with the investor's moral values (Broccardo et al., 2020). To exclude or divest in companies not compliant with your values does not significantly impact the companies regarding changing their way of operating or moving in a more sustainable direction. It takes a larger pool of investors with the same values for the impact to be significant and motivate the company to change (Broccardo et al., 2020).

3.4 Environment Social and Governance Factors

Environment, Social and Governance (ESG) factors are gaining more and more attention in the financial sector as they constitute a way to measure a company's social responsibility performance. In this way, it composes a way to incorporate a company's non-financial performance regarding responsibility aspects and transfer it to a score that applies to investments by making socially responsible actions of a company measurable. With this, investors and the financial sector have a tool to act responsibly or at least take responsibility into account when investing (Bolton et al., 2020). ESG scores have become part of the investors' thorough analysis of a firm to accommodate any risk also those who are traditionally not considered related to financial performance (Bolton et al., 2020). In this sense, ESG is part of what investors use to measure long term risks related to a company, as the tendency of social responsibility being more critical to the brand of a company is best seen in their ESG-rating. Hence a good ESG score is a sign of better chances of complying with the increasing focus on responsibility (Bolton et al., 2020). There are examples of ESG-providers detecting social responsibility problems before they occurred and affected the stock prices, such as when MSCI discovered problems at Volkswagen before their scandal in 2015 where Volksvagen had defective diesel indicators in many of the cars sold in America, resulting in a wrong indication of the cars carbon dioxide emissions (Bolton et al., 2020). This allows the investors to act on the potential responsibility problems before they get too severe. ESG is then not as such a way for the investors to be responsible, but a way to address problems and then use other means or tools to prevent the problems from being too severe or opt-out of the investment before it is too late.

ESG investing is increasing in Europe and America and already accounts for 50% of assets under management (Ruggie, 2020). Furthermore, ESG is primarily used as a performance measurement by mainstream investors; only secondary is it because of client demand and product strategy (Ruggie, 2020). This shows how ESG scores are getting a more significant role in the financial markets; ESG-scores is based on data provided by the companies themselves and is then analysed by rating agencies who give the company a score based on the provided data and the understanding of sustainability. ESG-ratings do not have a uniform recipe of how they are measured, as different rating agencies rate companies differently even though they are trying to cover the same aspect of the company and its ESG activities. This is due to the rating agencies having different sub-categories when making the ESG score (Dorfleitner et al., 2015). It leads to the same company getting very different ESG scores; an example is Tesla being rated best by MSCI and worst by FTSEE, both recognised ESG rating agencies (Bolton et al., 2020). This difference illustrates the shortcomings of ESG ratings at the moment when it is based on the different agencies' perceptions of what is a good performance within the three main pillars of ESG. For example, the environmental pillar in ESG is measured differently among ASSET4, Bloomberg and KLD, three dominant ESG rating institutions, where ASSET4 includes animal testing as the only one and Bloomberg and KLD are the only ones to include compliance with environmental regulations (Dorfleitner et al., 2015). Furthermore, they base their ratings on different data levels regarding what the individual rating institution finds relevant (Dorfleitner et al., 2015).

Along these lines is another aspect of ESG ratings that is problematic: it is based on the companies' own reporting, meaning that the rating agencies can only evaluate them based on the information provided by the company itself (Dorfleitner et al., 2015). Combined with several different methods of reporting in sustainability reports across different large companies, it makes it first of all difficult to compare the different companies, and it illustrates a weakness to the ESG ratings as the companies themselves decide what to disclose and what not to disclose (Kostantonis et al., 2016). This means that for the ESG rating institutions to provide an ESG-rating, they need to fill the gaps in the data provided by the companies in their reports; this gap-filling can be central to the differences seen in the ESG scores the different institutions apply to the companies (Kostantonis et al., 2016). Hence it can be challenging to get a commonly agreed-upon rating of the different companies, and there will be many different understandings of when a company is socially responsible.

3.5 Impact Investing and Blended Value

The concept of Impact Investing can be challenging to understand, it does not have a well-established definition, but the most common definition of Impact investing can be said to be: "Investment´s made with the intention to generate positive, measurable social and environmental impact alongside a financial return" (GIIN, 2021). The concept of Impact investing was first created in 2007 as a result of a discussion by a group of investors and entrepreneurs who sought to find an understanding/method on how to create positive value on green investing (Mccallum & Viviers, 2020). The group thought that terms like Social Responsible Investing and Ethical Investments carried too much focus on moral obligation, personal judgment, which result in companies only making negative screening as a sustainable investment strategy (Levine & Emerson, 2011). They also thought that Sustainable Finance, as a method, focused too much on environmental Impact and not enough on social justice and development concerns, leading them to the concept of Impact investing, since it invoked optimism and sentiment for combing economic action with social orientated goals.

The most well-known characteristics of Impact Investing's has been made by the Global Impact Investing Network (GIIN), in which they divide Impact investing into four elements (GIIN, 2021).

■ INTENTIONALITY: Impact investments intentionally contribute to social and environmental solutions. This differentiates them from other strategies such as ESG investing, Responsible Investing, and screening strategies.

■ FINANCIAL RETURNS: Impact investments seek a financial return on capital that can range from below market rate to risk-adjusted market rate. This distinguishes them from philanthropy.

■ RANGE OF ASSET CLASSES: Impact investments can be made across asset classes.

■ IMPACT MEASUREMENT: A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance of underlying investments (GIIN, 2021).

One of the most popular concepts in academic literature when it comes to Impact Investing is Blended Value, which Sheila Bonini and Jed Emerson created in their article from 2003: *The Blended Value Map: Tracking the Intersects and Opportunities of Economic, Social and Environmental Value Creation* (Bonini & Emerson, 2003).

> If impact investing is what we do, blended value is what we produce. Value is what gets created when investors invest and organizations act to pursue their mission. All organizations, for-profit and nonprofit alike, create value that consists of economic, social, and environmental components. All investors, whether market rate, charitable, or some mix of the two, generate all three forms of value. But somehow this fundamental truth has been lost to a world that sees value as being only economic (created by for-profit companies) or social (created by nonprofit organizations or government). And most business managers, as well as investors, miss out on the opportunity to capture their total value potential by not managing for blended value on an intentional strategic basis (Bonini & Emerson, 2003).

Blended value differs from economic value since it is not a value that can be added up (measurable) as economic value. Blended value is based on the acknowledgement that value creation can be more than the sum of different components but instead creates a continuous cycle that creates more value for an organization, society and the environment. It is also the proposition that value itself is a combination of economic, environmental and social factors (Bonini & Emerson, 2003), where none of the three mentioned factors gets compromised.

This approach should lead companies to create an overall strategy that combines economic profit with environmental and social factors.

3.6 Active Ownership

> Active ownership is the use of the rights and position of ownership to influence the activities or behavior of investee companies. Active ownership can be applied differently in each asset class. For listed equities, it includes engagement and voting activates (UNPRI, 2021).

Active ownership stands in contrast to passive ownership, which is based on agency theory, where shareholders are not involved in a firm's operations, but solely rely on the managers to make the decisions. On the other hand, active ownership refers to when investors are engaged in the firm and take an active role in steering the firm, which they can do by engaging in dialogue with their invested companies and voting in proxy meetings.

The term active ownership does not itself hold any sentiment to promote sustainable actions. However, investment companies continue to use active ownership as a way of promoting sustainable action relating to ESG, and is placed as the second of six principles of responsible investment by the United Nations, which is explained in the following way:

> We will be active owners and incorporate ESG issues into our ownership policies and practices and active ownership is one of the most important tools to reduce risk, maximize returns, and make sure that investment positively impacts the world (UNPRI, 2021).

Perhaps the best way to describe how active ownership is linked to sustainability is through the concept of active engagement. Active engagement can be understood as:" actions taken by shareholders with the explicit intention of influencing corporations' policies and practices" (Goranova & Ryan, 2013). Active engagement has been getting more attention since the financial crisis in 2008 because the financial crisis invoked more scepticism towards the financial system, which raised questions about the relationship between companies and their shareholders (McNulty & Nordberg, 2015). Policymakers have also since 2012 sought to encourage active ownership by linking active ownership to the concept of stewardship since stewardship implies that investors should seek to subordinate personal goals (financial goals) with goals that are beneficial for the society. Which should make investors care more about long-term goals than short-term financial gains (MCNulty & Nordberg, 2015). Another concept used with active engagement is collecting active engagement, which refers to when a group of investors goes together to get more collecting power.

3.7 EU Regulation on Sustainable Activities

3.7.1 Disclosure

The EU has initiated regulations that align the disclosure requirements throughout the EU as a means to promote the sustainability agenda in the European Union (EU) and the urgent need for action to limit the consequences of climate change(European Union, 2019). This is to avoid too large divergent measures in the disclosure regulation in the different nations in the union. These differences could result in unbalances in the internal market and cause significant distortions to the competition (European Union, 2019). This European disclosure regulation is a means to align what the financial market participants and financial advisors have to disclose about what they do to integrate sustainability risks and the consideration of adverse sustainability impacts (European Union, 2019). Furthermore, the regulation is a part of the overall EU ambition to meet the Paris Agreement with the ambition to limit the global temperature to increase with less than 2 C above pre-industrial levels and pursue efforts to limit the temperature increase to 1,5 C (European Union, 2019). It is essential to include the financial sector to achieve this target. There is an urgent need to mobilise capital; hence it is essential that the financial market participants disclose their approaches towards sustainability risks and adverse sustainability impacts (European Union, 2019).

The ESG disclosure regulation is supposed to make a level playing field due to the cross-sectoral approach. It is meant to eliminate greenwashing, as the conception of a green financial product is now more uniform (Hooghiemstra, 2020). To ensure this level playing field, the disclosure regulation will apply to every financial market participant or financial advisor, regardless of the design of their financial product. Furthermore, this is to enhance transparency and inform end investors with concise information about how the financial market participant or financial market advisor integrates sustainability risks in their investment decision-making (Hooghiemstra, 2020). Within the disclosure regulation is a differentiation between small financial market participants, less than 500 employees on average in a financial year, and prominent financial market participants with more than 500 employees on average in a financial year (Hooghiemstra, 2020). The difference lies in that the small financial market participants have to disclose on a comply or explain basis where they either comply with the requirements of sustainability risks or principal adverse sustainability impact. Alternatively, explain why they do not comply and what and when they intend to take action; the same comply or explain requirements applies for financial advisers (Hooghiemstra, 2020). The comply or explain principle is not applicable for large financial market participants, as they have to have a due diligence statement on their website. The due diligence statement has to state information about identification and prioritisation of principal adverse sustainability impacts. It should have a description of their adverse sustainability impact and the actions taken or planned to accommodate it. Furthermore, summaries of engagement policies and finally a reference to their adherence to responsible business conduct codes and internationally recognised standards for due diligence and reporting (Hooghiemstra, 2020).

Furthermore, do the financial market participants have to make periodic reports where they disclose their investments' impact on the environmental and social characteristics. Here, there is a distinction between financial products that promote environmental or social characteristics; and financial products that qualify as sustainable investments (Hooghiemstra, 2020). For the first category, the periodic report shall contain to what extend the environmental or social characteristics are met. For the second category, the periodic report must include the overall sustainability impact using relevant sustainability indicators, either with reference to a benchmark index or specifically related to the financial product itself (Hooghiemstra, 2020).

3.7.2 Taxonomy for Sustainable Activities

The taxonomy regulation is meant to complement the disclosure regulation as it lays down a framework for a classification system that is standardizing the conception of sustainable financial products (Hooghiemstra, 2020). It consists of six environmental objectives, which are climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and finally, protection and restoration of biodiversity and ecosystems (Lucarelli et al., 2020). A Technical Expert Group (TEG) determines these environmental objectives set up by the European Commission, and it consists of participants from academia, business and the financial sector on one side, and members and observers from EU and international public bodies on the other (Lucarelli et al., 2020). These objectives that constitute the taxonomy regulation and the taxonomy regulation are supposed to be a framework that ensures a unified classification system. Along with the disclosure regulation, it should unify how the countries in the EU work with and classify sustainable initiatives by the companies, for example, to limit greenwashing (Lucarelli et al., 2020; Och, 2020).

To comply and qualify as doing good according to the taxonomy regulation, a company must live up to four criteria. Which are:

> (1) The activity has to contribute substantially to one or more of six environmental objectives (2) while at the same time it cannot significantly harm any of the other environmental objectives. (3) The activity must be carried out in compliance with minimum international social and labour standards and (4) must comply with the technical screening criteria related to each of the environmental objectives (Och, 2020: 3).

The taxonomy regulation is related to the company's activities. These are economic activities that have to be compliant with the taxonomy regulation to qualify as sustainable (Lucarelli et al., 2020). Therefore is it an accumulation of a company's economic activities that determine if a company is to be considered environmentally sustainable; hence it can be accepted as an environmentally sustainable investment (Lucarelli et al., 2020). The before-mentioned four criteria are determined individually to the six environmental objectives that contribute substantially and do no significant harm as it differs how it can be measured and what the threshold is in each of the six objectives (Och, 2020). This means that a company can be more or less taxonomy aligned, depending on how much of their economic performance is based on taxonomy-aligned activities. Consequently, can an investor investing in one of these fully or partly taxonomy-aligned companies claims an investment to be an equal percentage taxonomy-aligned investment (Lucarelli et al., 2020). This is where the connection to the disclosure regulation becomes very prevalent, as this partial taxonomy alignment will be based on what the company discloses as their taxonomy aligned turnover and capital expenditure as required by the Non-Financial Disclosure Regulation (Lucarelli et al., 2020).

Even though the taxonomy regulation is highly focused on environmental objectives, sustainable finance is also associated with social and governance aspects, as of the ESG measures prevalent in sustainable finance. Therefore the third criteria for taxonomy compliance are related to social and governance factors that companies have to live up to some minimum requirements related to the eight fundamental conventions identified in the International Labour Organisation's Declaration on Fundamental Rights and Principles at Work (Och, 2020). The final requirement is not an additional criterion as such. However, the technical screening is a specification of the other three requirements in the form of delegated acts that specifies how the other criteria can be met. They have to be based on science and respect technological neutrality principles (Och, 2020).

4 Analysis

4.1 Outline of the Analysis

The following sections contain an analysis of the epistemologies prevalent in mainstream finance and sustainable finance. This difference is analyzed based on the representation of these epistemologies by Thomas Lagoarde-Segot (2015; 2019) and Thomas Lagoarde-Segot & Bernard Paranque (2018). Furthermore, it contains an analysis of the potential financialization of sustainability as explained in Lagoarde-Segot (2017). Both of these is analyzed in relation to the interviews with actors from the Danish financial sector, which touched upon their work with sustainability in finance and their strategies for including sustainability in investment decisions.

The analysis is structured to first look into some of the tools used by the Danish financial sector to incorporate sustainability in investments; these are, first of all, negative screening, active ownership, impact investment and ESG. The four tools are chosen because they were most frequently mentioned in the interviews. How the respondents in the interviews use these tools and perceive their strengths and weaknesses are analyzed in comparison to the interpretation of the epistemology in mainstream finance and sustainable finance, to highlight some potential discrepancies between how these tools should be used according to the interpretation of sustainability epistemology outlined by Lagoarde-Segot, and what the reflections and statements from the respondents suggest.

The section called The Danish Financial Sector's Perception of Sustainability (4.4) will look into how the respondents from the Danish financial sector perceive their responsibility overall and in relation to sustainability. The Lagoarde-Segot's interpretation of epistemology comes into play here as a means to problematize the balancing of financial goals and sustainability goals and to question if diverging epistemologies can be united in one definition of responsibility without compromising one of them. Furthermore, in the Sustainable Finance as a Win-Win Situation (4.5) section, Lagoeade-Segot's interpretation of epistemological differences is used to challenge the win-win discourse between financial returns and social responsibility prevalent in finance including the representatives from the Danish financial sector. The reason why complex understanding of sustainability and lack of a universal definition, can be considered important to investigate, is that uncertainty sustainability will most likely discourage investment (Migliorelli, 2021).

The final section Taxonomy for Sustainable Activities and the Complexity of Sustainable Finance (4.6) analyses the perceived complexity of sustainable finance as explained by the respondents from the Danish financial sector, along with an interpretation of the complexity of combining two different epistemologies into one field.

Furthermore, it will be opening for different epistemologies within sustainability using the arguments from Vildåsen et al. (2017) to emphasize the risk of having a too simple approach to dealing with sustainability in finance. In continuation will the EU taxonomy be analyzed as a possible standard definition of what sustainability is in an investment context, again relating to the possible clash of fundamental understanding through the different epistemologies, and further if the taxonomy is just a further financialization of sustainability or potentially more inclusive of sustainability epistemology. This is to understand if there is a problem regarding how complex sustainable finance is and how it is perceived and if it is getting easier to incorporate sustainability in finance or finance is making their own definitions to work from.

4.2 Negative Screening and Active Ownership

4.2.1 The Criterias for Negative Screening and the Role of Norms

The examination of the Danish financial sector has shown that their main sustainable activities are negative screening and active ownership. It also shows that negative screening can be said to be their starting point when they moved to sustainable finance before they moved to active ownership, which can be seen in the quote from PKA:

> We got some directions for responsible investments that, among others, rest on the UN Global Compact principles. Furthermore, just as important, in 1998we got our guidelines about not investing in controversial weapons. Weapons were the first sector, where we had zero tolerance. Then in 2005, we added that we should not invest in tobacco companies. Moreover, that was when it accelerated, and in 2010, PKA invested in its first direct green investment with the investment in Anholt Windmill Farm in Denmark. And that gave a good foundation (Appendix D, PKA, our translation)

The respondents' firms' screening policies are either based on specific goals that they have defined themselves or based on what they classify as norms. The norms described by the respondents are aligned with Lagoarde-Segot's (2015) argument that scientific knowledge within social sciences, which sustainability and social responsibility are, relies on norms, instruments, structures and cultural backgrounds. Thus, when companies in the Danish financial sector are screening companies based on norms, whether they are tied to conventions or their own interpretations to regional norms, this screening is based only on what scientific knowledge in sustainability is based on (Lagoarde-Segot, 2015). This indicates that their screenings are not purely based on financial epistemology but considers social aspects, which is important according to Lagoarde-Segot (2015), who argues that social context is important in gaining knowledge about sustainability and that norms constitute an example of a social context that should be considered. Therefore norms are part of the epistemology needed to understand social aspects of sustainability.

This case of connecting the norms to the UN Global Compact is a way to legitimise the norms they use to the negative screenings. In this regard, it should be noted that the UN Global Compact is not compulsory, and there is no obligation to follow the principles once you have joined. This means the legitimisation of the norms is limited. In the end, they are not made for negative screening but as guidelines for companies to uphold basic responsibilities to people and the planet (The Ten Principles | UN Global Compact, 2021). In continuation of these international norms, the companies in the Danish financial sector use negative screening based on requirements within specific sustainability areas.

> We have our restrictions list, and we have restrictions on controversial weapons at a group level, which also means on the loan side, we do not lend money to controversial weapons. We have a turnover limitation of 30% on oil. As well as a turnover limitation at 30% on thermal coal, this is also on the loan side. We have, in asset management, a 5% restriction on tobacco (Appendix F, Danske Bank, our translation)

The limit on each of these is set by Danske Bank and is not an international standard every financial actor follows. The norm here is that the areas restricted are considered harmful and have nothing to do with the threshold determined by Danske Bank. Given that the norms determining the restriction of these areas are tied to international standards, it could seem like the financial actors seek an independent objective opinion on what is considered bad enough to avoid investing in. However, this contradicts the epistemology in sustainable finance as "objectivity' in social sciences is really 'intersubjectivity' (i.e. interaction between individual consciousnesses)" (Lagoarde-Segot, 2019: 7). This implies that norms can constitute intersubjectivity in epistemological terms, but they will not be objective by tying them to an international convention or international standards. Therefore the norms cannot be the foundation of a general percentage limitation to how much oil or coal turnover a company has. However, the norms can constitute a guideline to where the restrictions should be. According to Lagoarde-Segot's argument about intersubjectivity, the right epistemological approach would be to determine which companies to exclude on a case by case basis. The problem with this approach is that it requires many resources to make these case by case assessments, which might hinder some of the companies in the Danish financial sector as most of their social responsibility departments are relatively small.

The respondents make general rules to what threshold they accept before they avoid investing, resulting from a lack of resources. Nevertheless, when the specifications of the screening criteria are based on their own interpretations of these norms, they can be more or less ambitious depending on how they perceive these norms and how they fit the rest of their strategy. There is no regulation or any other control with how the financial companies live up to the norms, which means they can do whatever they want and present it as sustainability.

One interpretation of international norms is presented in the quote below, where Danske Bank explains the concept of Nordic norms. Here they present the UN as the organisation setting the standard, but as they do not control the actions of the financial sector in this regard, it can be seen as a way to justify the norms-based restrictions.

> And then we have what is called Nordic norms. Nordic norms are about when companies breach conventions like human rights or child labour. It can be if they have done significant damage to the environment. In that case, we have some frameworks to work from. So if they breach some of the rights the UN has established, then they are added to our norms-based restrictions list (Appendix F, Danske Bank, our translation).

Other respondents refer to international norms. Sandra Metoyer from AP pension describes that they screen companies that go against international norms. However, she defines this as when the company has been in considerable controversy. At the same time, PBU also refers to international norms but refers to international norms based on the UN Global Compact. The Nordic norms that Danske Bank mentions in the quote above seem connected to different UN conventions regarding human rights and environmental objectives. Norms in a social context are thus very context-dependent and differ between cultures (Lagoarde-Segot & Paranque, 2018), even within western society. So to base screenings on these international norms will necessarily be very generalized for it to constitute norms prevalent in the majority of countries around the world. Hence norms are complex to generalize on a worldwide scale. However, the norms used by the Danish financial sector will reflect the Danish understanding of the norms, and the screenings will reflect a Danish perception of the international conventions since the actors are embedded in the Danish society.

The measurability of norms in a sustainability context aligns with the argument that the financialization of sustainability is occurring in sustainable finance. Finance is taking the social phenomenon norms and generalizes it as a general rule that applies in any case, resulting in a shift in individuals' understanding of these norms, and they are removing the context dependency norms imply (Lagoarde-Segot & Paranque, 2018). This is an issue because it uses concepts related to sustainability and social sciences but converted to finance epistemology, resulting in skewed understandings of the companies and their actions. The method is stripped from the social context to be objective and measurable.

Some of the respondents said that they use the screening process based on their own agreed screening criteria. PBU mentioned that they have a qualitative process to identify companies that align with the Paris Agreement from 2015 and have further added 144 companies to their screening list due to climate-related issues.

Both PKA and PBU mention during their interviews that their members are especially interested in social conditions, and they also have to focus on social issues. This can, for example, be seen in PKA:

> We have reached out to Tesla, and from 2018 to this day, Tesla is on our negative list. Amongst others because they have some poor conditions concerning that they will not let their employees join a union, which means a lot to our members (Appendix D, PKA, our translation).

PKA's reasoning for putting Tesla on their negative screening list is interesting because it is perceived as a company that makes an excellent environmental change in the car industry and is perceived as a company that should guide the car industry towards a sustainable world. However, different ESG providers also give very different ESG scores on Tesla. MCSI has given Tesla the highest ESG scores in the car industry because of its environmental impact. In contrast, other ESG providers, such as Suistanalytics and FTSE RUSSEL, assessed Tesla to be in the middle or low end of the car industry due to their unethical actions towards their employees (Bolton et al., 2020). This illustrates that there are many aspects to consider in sustainable finance. The interpretation of the sustainability performance for a single company can vary a lot, so it takes an individual assessment to decide if a company is following the norms and values that are important to the individual financial agent. PKA has decided that the social aspect is essential to them, so even though Tesla is great on environmental issues, it is not enough to compensate for the social issues where they lack behind; which illustrates that both norms and ESG-ratings are only guidelines, but there has to be a deliberate decision behind the exclusion of companies.

4.2.2 Screening Based on Company Values

The interviews show that the Danish financial sector has different opinions on whether or not they should avoid investing in sectors that could be considered sin-stocks, such as gambling and tobacco. Louise from PKA said that they had put the tobacco industry on their negative list back in 2005 (Appendix D, PKA, our translation), while PBU, in some cases, focuses on how a company operates instead of excluding them based on the sector they operate in.

> We have evaluated the companies involved in tobacco production and said, okay, some of them do not live up to the criteria set up. Then we have said, we cannot decide if a tobacco company that makes the transition to e-cigarettes and alternative smokeable products that they are better health-related than others. We cannot make that verdict because there is disagreement in science about whether these new products are more or less damaging. This is not what we evaluate them on. We evaluate them based on how they marketize tobacco products to children and young people. Then it comes up again with our distinct prioritizing, that we do not say no to tobacco (Appendix C, PBU, our translation).

This quote indicates that, unlike what Lagoarde-Segot (2015) suggests, some financial organisations are looking into the latest science within the field they are screening. It is evident here that PBU's decision to not exclude these e-cigarette companies is not based on financial calculations or financial methodology. They are trying to avoid making any value judgments about e-cigarettes and leaving it to scientists dedicated to this field. Given that there is no clear answer to the health issues, PBU is looking into other aspects of the companies, such as how they market their products and if they promote it to young people, and make the exclusion decisions based on that. By doing this, they acknowledge the limitations of using purely financial methods to evaluate non-financial parameters and that it takes other methods to understand and make educated decisions concerning these non-financial parameters.

The respondents had different opinions on whether or not it is possible for companies that have been put on the negative list to come back to be companies that can be invested in. Sydinvest said that if a company has been put on their negative list, it will demand radical changes for a firm to get out of their negative list since they have only been put on the screening list if their operation and product areas are not suitable for their sustainable plans (Appendix E, Sydinvest). On the other hand, BankInvest argued that being put on their negative list is not definitive and that they will still monitor them to see if they change their ways. This can be seen when they talked about their negative screening of Walmart: "Walmart was treating their employees very poorly. So they were added. They have shown progress which is why they are no longer on our exclusions-list" (Appendix B, BankInvest*,* our translation).

The quote above does not tell how the employees were mistreated or how badly they were treated to make BankInvest divest Walmart, neither which actions Walmart took in order to improve the conditions. The idea of allowing them back in the portfolios indicates that they believe in the effect of the exclusion list and that it does have an effect. It indicates that BankInvest is not solely using financial calculations to make the decision. This further indicates that Lagoarde-Segot's notion of the financial sector is too closed to the financial epistemology (Lagoarde-Segot, 2019) is not fully applicable to the Danish financial sector with regard to negative screening, as they have to rely on relevant science or make their own evaluations of issues that cannot be seen in the balance sheet or the income statement.

4.2.3 Making a Difference Through Active Ownership

However, the respondents in the interviews shared a belief that SRI and negative screening are outdated when it comes to sustainable finance and how financial firms can create a sustainable impact. This can, for example, be seen in Sydinvest:

> I think it has characterized the industry for quite some time that you have had this exclusion approach to sustainable investments, which have driven all these screenings. It is super easy to cut the investment universe, but it is far more difficult when you have to justify that you have a vision to work with the companies to try and influence them in a positive direction (Appendix E, Sydinvest, our translation).

When talking about active ownership with the respondents, a common theme has been that they link active ownership with some sense of social responsibility. They have argued that it is more responsible for being active owners in non-sustainable sectors so that they can influence their behaviour, instead of just avoiding them, which would then just lead to other investors investing in them. This can, for example, be seen in the interview with AP pension:

> If we have owned the stock in the company for X amount of years, and all of a sudden there is some sort of accident or something happens, some sort of controversy. Is it then responsible to say: "Hey, we do not want to be part of that?" Or is it more responsible for trying and using our ownership to engage with them to make sure that they correct the issue and make sure it does not happen again? So that is in a nutshell what it is (Appendix A, AP pension).

This can be compared to the concept of exit vs. voice (Broccardo et al., 2020), which was mentioned in section 3.3 Socially Responsible Investment, which presents the same findings that voice has more impact on the companies and has a higher success rate of achieving changes towards more focus on sustainability than is the case for exit (divestment) (Broccardo et al., 2020). This should encourage investors to emphasise their active ownership activities if they want to take more social responsibility. Furthermore, it gives them a valid reason to stay invested in a company that harms the environment or a negative social impact, as long as they can claim to use active ownership. Despite the belief that active ownership is the best way to be responsible, some respondents, such as PBU, Sydinvest, and Danske Bank, said that it is straightforward for them to cut off part of the investment universe. However, solely exclusion of specific sectors is viewed as not affecting socially responsible progress.

This is especially true when it comes to sectors that are considered to have a negative sustainability impact, since they find it better to be part of heavy non-sustainable sectors, so that they can change them, rather than just excluding them, which can be seen in the following example:

> The windmills have to be made of something. So the steel producers also have to be there in 15 years. This is why we have tried to have the approach to, instead of excluding steel producers, will we instead actually invest in some of these companies. But then follow up on our investments with a platform for a programme to push for a more sustainable direction and set up some targets (Appendix C, PBU, our translation).

Other respondents have argued that oil is necessary both in the present and future and will not exclude the entire oil sector. However, most of them have some demands that the oil sector has to live up to, while they also seek to limit their oil-invested companies in their portfolio. However, a large proportion of the respondents have said that they exclude coal, both because of the environmental impact it has on the world and because it is seen as stranded assets that will not provide profit in the future. When using active ownership, the financial institutions have to consider what they intervene against or what they seek to promote. When they gain information and knowledge about this and, in a way, combine financial and sustainability interests, they face what Lagoarde-Segot (2019) calls an epistemological dilemma.

Lagoarde-Segot (2019) suggests two solutions to how finance can overcome the epistemological dilemma between the epistemologies in sustainable finance and mainstream finance. The first is "calquing agency theory onto sustainable finance" (Lagoarde-Segot, 2019: 6), which implies the inclusion of extra-financial criteria such as environmental and social aspects. The second being that "sustainable finance obeys principles that place it outside the scope of financial theory research from the outset" (Lagoarde-Segot, 2019: 6). This solution implies that financial agents acknowledge that the objectivity, sought after in finance, is an intersubjectivity in social contexts and can never be entirely objective but is an interaction between individual consciousness's (Lagoarde-Segot, 2019).

According to this, the financial institutions would have to make assessments of every company they invest in, in addition to the financial assessments. These would have to be based on social sciences for social issues in companies and natural sciences when relevant for environmental issues. These assessments would just be for getting an idea of what impact the company's action has. It would require a considerable effort by the investors and given that any action would have to be analysed with consideration to time and space, making every action unique. Especially when you consider that they are doing this on all companies in their portfolios, it becomes a huge task for most banks and pension funds. Hence it is unlikely that every financial actor can make such thorough analyses. However, the risk of making sustainability decisions on limited knowledge about the company's actual impact is prevalent since the epistemological approach needed to gain knowledge about sustainability is too comprehensive for most financial agents to make for every company they invest in.

4.2.4 Different Approaches to Active Ownership

As mentioned in section Active Ownership (3.6), active ownership has no direct connection to social responsibility but is still seen as an important way for investors to promote sustainable action. Sandra from AP Pension, said amongst others, that their understanding of active ownership has not changed. Instead, it would be more correct to describe active ownership's change to increase active ownership. As it is now considered closely related to social responsibility and sustainability, the increased use of active ownership could indicate how important it is to the Danish financial sector to be socially responsible. However, at the same time, some of the respondents said that active ownership is something they are expected to do since it has now become an informal rule that all Danish financial companies should be active owners. They also have the conception that active ownership has a significant influence in moving invested companies, which can, for example, be seen with AP pension when Sandra Metoyer talked about how they use active ownership.

> So active ownership is, basically, that we own parts of companies. We invest in their stocks, and we get to vote at the annual meetings. Active ownership is just about using your ownership actively and vote at proxy meetings. Moreover, if we do believe that… if something happens, if there is an oil spill or a mine that burst or whatever, then it might be that we use our ownership to try to engage with them, to make sure that they take the necessary actions to make sure it does not happen again. Active ownership works (Appendix A, AP pension).

When active ownership is so essential to promoting sustainability from a financial standpoint and when AP Pension states that "active ownership works", it underlines how central active ownership is for the Danish financial sector in their work with sustainability. Active ownership can be seen as a link between finance and sustainability, hence constituting a central aspect of the financialization of sustainability Lagoarde-Segot (2017) highlights. Financialization in sociological studies is presented "as a shift in individuals' subjective understanding of their socioeconomic roles" (Lagoarde-Segot & Pranque, 2018: 83). With this perspective, the parameter of success for active ownership will be on financial terms and result from a financial epistemology and interpretation of using active ownership, which means that when active ownership works, it speaks into the financial dichotomy of reducing the risk of the investment to secure future returns. This is further illustrated by the importance of being able to do active ownership. Most of the respondents have even said that it is just as crucial that a company answer their calls and engage in dialogue as it is having a good ESG-rating. This can, for an example, be seen in Danske Bank:

> So we experience they are listening, of course, there can be… But if we experience they are not listening, then we pull out. If we do not see an improvement or if we cannot even get in contact with them. Which we have experienced, for example, with a mining company in Morocco once. After something like five unsuccessful attempts to get in contact with them, we sold our shares because it was not acceptable (Appendix F, Danske Bank, our translation).

When there is no chance of getting in contact with the company and active ownership is no longer possible, the financial institution pulls out of the investment as there is no longer any chance of influencing the sustainability risk. According to Lagoarde-Segot (2017), financialization implies an extensive focus on shareholder value maximization, which would correspond with the intention of using active ownership to benefit financially before caring about the sustainable impact. Following this, active ownership in a sustainability context should contribute to this shareholder value maximization and even become relevant to a financial institution. When Danske Bank decides to pull out of the investment, even though it is widely considered more effective in sustainability terms to stay and use active ownership (Broccardo et al., 2020), it is an indication that there is too high sustainability risk connected to keep the investment. From a financialization perspective, it seems that Danske Bank pulls out of the investment to avoid a financial loss. However, since it was later explained that they pulled out immediately without looking at the stock price, it indicates that it was with sustainability in mind. It can result from active ownership only works when the financial institution can reach the company they intend to influence.

Another reason why the Danish financial sector has put such a big focus on active ownership is that it gives them insight into their invested companies' sustainable goals, which ESG data does not provide since ESG data does not include overall and future strategies of the firm's sustainability plan.

> But then it is worth mentioning active ownership, ESG can be used for some purposes, but active ownership does also play a role. Can they implement strategies and some targets for when or how they become CO2 neutral? What do you do? Can you show some plans like other investors who are also interested in these data? Or start a dialogue? Okay, but do you have a 2050 plan, where you are CO2 neutral? And how will you get there? How about your coal-fired power plant? When are they phased out? What about CO2? Or CEO remuneration is there a structure for that? Starting a dialogue makes us more informed about what we can get from the company and what their approach to this is (Appendix B, BankInvest, our translation).

As seen here, active ownership is not exclusively about directing companies in the right direction. It is just as much about gaining more information about the company through these dialogues. The questions presented in this quote could seem like additional information relevant in making a sustainability risk assessment, along with having some targets to hold the company responsible for as a security to the investor. The security is understood as the company has some declared ambitions within sustainability and a plan on how to achieve it; this constitutes security for the investor, as they can refer to this plan in their active ownership, hence have a reference point to detect possible sustainability-related risks. So even though active ownership is presented as a tool to improve sustainability, it is used as a tool to enhance the financialization of sustainability and prevent financial losses as a consequence of sustainability-related crises. Furthermore, to keep the investors back free, they used active ownership to try to improve the company.

PBU can be said to go a step further when it comes to incorporating active ownership in their investment portfolio since they have made their portfolio smaller, which they describe as concentrated ownership, in order to be more capable of being active investors.

> We went from more than 3.000 companies in our portfolio of shares to now having 600 [now reduced to 400]. Based on our philosophy, we want to know the companies we invest in, and we want to be able to monitor what is going on in the companies and cultivate a reasonable dialogue with our fund manager. This means that we have dropped every passively managed shares so that we now exclusively have active fund management (Appendix C, PBU, our translation).

This quote indicates that some parts of the Danish financial sector are trying to concentrate their portfolios in order to be able to be active owners in all of the companies they invest in. This makes room for a more thorough assessment of their investments, so they do not have to have generalized standards for when they act on sustainability issues. It allows them to follow sustainability epistemologies and consider context, culture to a higher degree; hence their use of active ownership should be more accurate and detect issues that might not be detected when being too tied to financial epistemology. Despite this, active ownership cannot be purely focused on sustainability. Every respondent emphasized at least a dual responsibility to achieve sustainability goals and financial returns; hence the financial interest has to be considered.

Later in the interview with PBU, it is mentioned that they can have a smaller portfolio because the financial sector has misunderstood the theory of portfolio strategy. He argues that portfolio theory states that an investor can have ten investments and still have a diversified portfolio. He also mentions that they aim to cut their portfolio from 600 to 300 in the coming years. Other respondents have not mentioned that they seek to make their portfolio smaller but instead say that they are still in the process to understand how they can extend their active ownership.

4.2.5 Active Ownership Communities for Greater Impact

The respondents join communities of investors who collaborate to push the companies to be more socially responsible to accommodate the limited influence most of the respondents experience when trying to influence companies alone.

> My impression is that "small" Sydbank does not move anything alone, but we are part of some communities with other more prominent investors, which makes a difference (Appendix E, Sydinvest, our translation).

Another theme in the interviews regarding active ownership is the importance of collaborating with other investors to influence a company. During the interviews, all of them mentioned that even though they have a capital of over 50 billion DKK., then that is not enough to change corporate behaviour, so they have to collaborate with other investors that have the same goals as them. This limits a single financial institution's influence as they have to align their sustainability effort with other financial companies who might have a different approach to sustainability. For instance, when PBU is making an effort to know so much about every investment they make and how to influence them through active ownership, as touched upon previously. These collaborations are dependent on how larger financial companies perceive the situation, even though they might have different methods and less information. On the other hand, these collaborations increase the impact of active ownership because it is now a large group of investors demanding a change.

Voting is another essential thing to mention when it comes to active ownership in the Danish financial sector. Many of their voting processes are not done by themselves but by a third party. The third-party company is typically a company that is voting for multiple investors. PKA explain this collaboration in the following way:

> But we are primarily active owners through investor coalitions, e.g. through our partner called EOS at Federated Hermes in London, which represents approx. 45 investors from the USA and Europe. They have dialogues with companies on our behalf and represent a coalition of investors and the collected fortune of all the investors. It means a lot that we collaborate with other investors if we will have an impact on big companies like Google and Amazon or the likes (Appendix D, PKA, our translation).

All of the respondents mentioned that they are part of the Climate Action 100+ organization, an investor organization that seeks to influence the 167 companies with the most significant CO2 emission. The respondents have addressed that organizations such as Climate Action 100+ can be seen as a success story in how investors have a say in influencing the way firms operate, which can be seen in the quote below from PKA Pension.

> We are putting pressure on some very big companies through Climate Action 100+. Large investors worldwide support it, so there is a massive sum of possible investments behind this initiative, which puts pressure on the companies that do not intend to change and become sustainable. It can have consequences for them when investors from all over the world say they have to do something. So it is exciting to be part of a success story that, in many ways, has already made many companies set targets to be CO2 neutral by 2050 and make a concrete strategy. It is really a success story for active ownership that you as an investor can collaborate with other investors to initiate a dialogue with large companies (Appendix D, PKA, our translation).

The success of an organization like Climate Action 100+ illustrates how much influence the financial sector has when it unites and works for a common cause and how dependent companies are on the financial sector. This dependency means that the financial sector can make a significant difference to how companies act in relation to, for instance, sustainability, emphasising the importance of having the right foundation of understanding sustainability through proper use of epistemology. The likelihood that Climate Action 100+ is successful even when using the appropriate epistemology is high since environmental aspects are best analysed by using methodology from natural science, which is similar to the methodology used in finance (Vildåsen et al., 2017). This equal methodology, between financial and environmental science, means that despite financialization, the result of finance interfering with the companies climate impact, it does not neglect the nature of the environment epistemology, in the sense that given the epistemologies are so similar, the main aim for reducing negative environmental impact will not differ significantly despite having a financial stance because the target for reducing negative environmental impact is measurable in a way that can be understood in financial epistemology. The success of Climate Action 100+ is therefore helped by sharing methodology with studies of the environment; it will most likely be more challenging to have the same results if the focus is on social issues because the epistemologies in finance and social studies are very different.

4.2.6 Section Conclusion

To briefly summarise, the above-mentioned perception of active ownership and negative screening illustrates how the Danish financial sector has sought to incorporate sustainable finance in their business practice through either engagement with firms or excluding them if they do not live up to their goals or norms. All of the respondents agree that excluding firms does not have a significant sustainable impact on the world, but most of them still find it necessary to exclude sin stocks while also exclude some sectors that do not align with their own belief. These screening criteria can either be through an international agreement such as the UN Global Compact or goals set by themselves. Following the analysis, these international norms cannot determine how the screenings should be or set a benchmark to follow but can be a guideline to which areas can be put restrictions on. The financial sector has to use the guidelines to make their own assessment of the companies and when they divest in some of them. Every respondent from the Danish financial sector associates active ownership with some sort of responsibility to influence firms to be more sustainable or address how they will tackle specific sustainability issues. All have a positive attitude towards how much active ownership influences other companies. All of them also address that they have to collaborate with others in order to get more power in proxy settings so that they can influence companies to be more sustainable. The financial sector can make a sustainable difference through active ownership. However, there is a risk of financialized sustainability when the financial sector influences companies regarding their sustainability activities if the epistemological differences between finance and sustainability are not considered.

4.3 Epistemological Challenges in ESG and Impact Investment

4.3.1 ESG-Overlay to Accommodate ESG Short-Comings

ESG-ratings are widely used by the companies in the Danish financial sector as a means to incorporate sustainability into finance, and it is becoming a more integrated part of investing: “So I think it’s just going to become a more and more natural part globally, also in our internal portfolios” (Appendix A, AP Pension). And is used more and more as a parameter that can help investors spot a financially beneficial investment: “You think a lot on ESG as, in fact, an explanatory variable relating to something that creates more profit more than you do that it removes something from the investment universe” (Appendix B, BankInvest*,* our translation). ESG is thus becoming an additional factor the financial sector can use in the pursuit of financial returns. When ESG is becoming another explaining variable, as mentioned in the quote above, it is adopted as a parameter that can help predict perceived events; this underlines the financialization of sustainability that Lagoarde-Segot (2015) expresses. ESG becomes a means to enhance financial performance rather than promoting sustainable initiatives. Therefore it is interesting to get an understanding of the epistemological foundation the ESG-ratings are based on, as it indicates how much of a financialization of sustainability is taking place. It can indicate if there is a challenge related to how sustainability is understood and reflected in ESG-ratings.

Even though it could seem like a very calculated use of ESG to only use the measured sustainability performance to reach higher financial returns, the interviewed companies are also using what some of them call ESG-overlay (AP Pension & PBU). This overlay is a way to analyse the potential investments further than just looking at their ESG-score.

> And we use the ratings twofold; they have a scoring like they have different criteria they look at for each company that they potentially can invest in. Moreover, the ESG-rating is part of that score. So basically, a poor ESG-rating will make the investment look less attractive. So it is definitely part of that. And then, there is also a qualitative overlay where they research the companies they are going to invest in (Appendix A, AP Pension).

The ESG overlay is to make sure that they properly investigate the companies they are going to invest in, in order to make sure that it is first of all updated data ESG-data since, in some cases, the data can be from up to 2 years prior to the rating (Sydinvest). Therefore, it is crucial for the investor to look more into the data behind the ESG-rating to evaluate if it is still applicable to the company; or something that the company has already made up for and changed. Therefore, the ESG-overlay is a way to examine the companies further to get a more nuanced view of their sustainability performance.

This precaution can be seen as a way to consider the context of the company. However, it could still be challenged by the different epistemologies within sustainability and between finance and sustainability because each of the epistemologies leads to different kinds of values and results (Vildåsen et al., 2017). These differing epistemologies within the ESG factors do have different applicability to finance. As a natural science-based epistemology, the environment part has more in common with the primarily statistics-based and natural science-inspired finance (Vildåsen et al., 2017). Hence, it is easier to measure the environmental impact and includes it in financial analyses without compromising the essence of the environmental impact.

It is more challenging to include the social aspects of ESG as it is related to social sciences and very dependent on the context of the action (Vildåsen et al., 2017). This is another example of what Lagoarde-Segot (2019) states as a closed-system that is dominant in finance, where one event for sure leads to another given event, which is a certainty and causality like relation between events that are more suitable for natural science and the epistemology in finance because it leads to quantitative values that are easier to include in statistics and risk assessments. Concerning this, ESG is becoming an attempt to incorporate social responsibility in the financial way of thinking. This incorporation thus fails to grasp the complexity of especially the social factors in sustainable finance. Instead, an open-system is more suitable to understand the impact and effects of social actions of companies, according to Lagoarde-Segot (2019). This is due to mechanisms that are dependent on, for instance, the agents involved and the ongoing development of institutions and "the fact that the physical world itself is not a closed-system" (Lagoarde-Segot, 2019: 7).

The ESG-overlay can also be seen as a way to compensate for only having one ESG provider as the majority of the interviewed companies have (Appendix A, AP Pension, BankInvest, PBU, PKA, Sydinvest).

> Overall, we use some providers, which give us an overall assessment of the company. They give the company a kind of rating at the ESG level, and then can our portfolio manager, so to speak, evaluate this ratio. The majority will also follow the external supplier's assessment. Nevertheless, we actually have the opportunity to do some ESG analysis ourselves and challenge our supplier's position because that is also important. After all, there is not much coalition at the moment between the various suppliers on the ESG side. So it becomes… you end up quickly becoming supplier dependent, which we, of course, are not interested in. We want to be independent of suppliers (Appendix E, SydInvest, our translation).

This quote illustrates the pitfalls connected to relying too heavily on one ESG provider, as they have different evaluations of the same companies. This is exemplified by Tesla, from a previous section The Criterias for Negative Screening and the Role of Norms (4.2.1), being given the best ESG-rating by MSCI, a mediocre rating by FTSEE and the worst rating by Sustainalytics, three of the largest ESG-providers (Bolton et al., 2020). MSCI and Sustainalytics are furthermore the two most used ESG-providers by the interviewed companies. Given that most of them only use one ESG-provider, among others due to lack of resources, it becomes evident that further analysis of the data behind the ESG rating is needed. To get an understanding of the real sustainability-related risk of the company that is considered to invest in. "Nevertheless, we use data from MSCI. And based on that, we do our own analyses and fill in our policies" (Appendix C, PBU, our translation). This shows that there is an awareness of the vulnerability of having only one ESG-provider. It is a general awareness among the respondents; hence, they have chosen an ESG-provider they believe have as close to the same understanding and priorities of sustainability as they have themselves.

> Well, it is obvious that the ESG score you can get from external data providers. Of course, it has improved over the years, but there are still many gaps, and the quality is not either… it is based on public available sources. And then, of course, there is some review. The firms have the opportunity to return to the providers and say: "We do not agree with this assessment" (Appendix C, PBU, our translation).

The ESG providers' ESG-ratings represent a transformation of sustainability value into a measurable rating that can indicate a risk related to a given investment. Therefore it does constitute financialization of sustainability as it transforms qualitative empirical data into quantitative, measurable data that should constitute a measurement about how sustainable a company is, which can lead to a dangerous conceptual reduction (Lagoarde-Segot & Paranque, 2018). This transformation of sustainability data to an ESG-rating that contributes to the financial methodology in analyzing companies with the aim of making the best investments is a result of "Financial theory thus becomes a statistically sophisticated, yet inadequate, conceptualization of reality" (Lagoarde-Segot, 2019: 6). Despite this, the Danish financial sector is not taking the ESG-ratings as facts or as the true conceptualization of reality since they are using these ESG-overlays and have further analyses of the companies that they invest in. This could indicate a more subjective evaluation of the companies' sustainability performance, hence a less financialized approach to sustainability, resulting in a more nuanced conception of reality than the one presented by Lagorade-Segot (2019).

It is even more complicated to use ESG-ratings when the data they are based on are provided by the companies themselves without any regulation, as of right now, on what they have to disclose. It means that it can be hard to compare the companies, as they might provide information on different topics. Hence the ESG-ratings are based on different information levels and different understandings of sustainability. It seems like a precaution from the Danish financial sector companies to further analyse the companies they invest in to make sure they are making responsible investments.

The diverging ESG-ratings of the same companies, based on the same data, illustrates a lack of uniformity in understanding sustainability. It illustrates a challenge within sustainable finance that there is no common understanding of sustainability. When financial terms dominate the differing epistemologies within sustainability, the different aspects of sustainability are prioritised differently and interpreted differently. Hence it cannot be said whether an investment is sustainable or not; or if a financial institution is socially responsible in its investments, which makes it difficult for the financial sector to incorporate sustainability into their financial practices by using ESG.

4.3.2 Definition Challenges in Impact Investment

This lack of uniformity in understanding sustainability and terms associated with sustainability, is further stressed by very different understandings of impact investments among the respondents.

> The definition of impact investment may not be 100 percent unambiguously defined. The way I look at an impact investment, it's not something we currently offer. We have no definite impact funds. But we have funds that make an impact, like our sustainable funds, because they have sustainability goals. (…) Then it is, for example, that we want to a specific world goal, or you might say that you want to help the geographical area to raise the standard of living or and so on, while we expect to get a financial return (Appendix B, BankInvest, our translation).

> We call it social or green investment. Impact investing is just an umbrella for social or green. And then you can have something that might be a mix. (…) It is really just an investment that takes into account both environmental and climate risks and social risks. It finds support for climate solutions and, at the same time, does not negatively affect human rights. So as we see, impact investing is sort of an umbrella that covers both green and social investments (Appendix D, PKA, our translation).

These two perspectives on impact investment constitute one understanding of impact investment: the comprehensive understanding, stating that investments that support anything related to sustainability or responsibility, such as social or climate aspects, are not necessarily impact investments but investments with an impact. When BankInvest claims not to have actual impact investments but rather investments that have an impact based on some of them contributing to the social development goals set by the UN. It keeps this comprehensive and vague understanding of sustainable investments as the SDG's cover many very different aspect of doing good in the world, and each of the 17 goals have several goals attached to them (THE 17 GOALS | Sustainable Development, 2021). So as long as it is not specified to what degree an investment must contribute positively to the SDG's it can be said that most investments will, to some degree, have an impact. This diminishes the integrity of sustainable investments if the only requirement for an investment to be sustainable is that it contributes in some sense to the SDGs. Hence to just refer to a company contributing positively to the SDG's is a very vague claim and not sufficient to verify sustainable investments because it contains too general targets that are open for interpretation, and the degree of contribution to the SDG's can vary a lot. However, this will be elaborated further in section Simple Interpretation of Sustainable Investments (4.6.2) of this analysis. Similarly, the understanding of impact investments expressed by PKA is very broad as it is all investments taking environmental and social aspects into account, which can be questioned as being too vague to get a common understanding of impact investment.

On the other hand, the majority of the other interviewed companies share a similar understanding of impact investments; which more or less is reflected in the definition by Sydinvest below:

> I think our definition is that this is where you are willing to start compromising on the financial return. It is where you start to put some restrictions on yourself or include some other goals in your investment, which means that you may well know that it involves a lower financial return (Appendix E, Sydinvest, our translation).

There seems to be a consensus among the remaining companies that impact investments have some compromise regarding financial returns, but promoting a socially responsible cause stands as the benefit gained instead of the compromised financial return. With this dominant perception of impact investment, the majority of the interviewed companies do not have actual impact investments. With this definition of impact investments, they are not allowed to have impact investments. Because the Danish Financial Supervisory Authority restricts them from making investments with another primary target than financial returns, it has to be said that there is still an understanding that every investment has some impact, both good and bad. PKA explained that their perception of impact investments as "an umbrella over the greens when it comes to social investments" (Appendix D, PKA*,* our translation) means that they have impact investments through their green and social investments. According to this understanding, all respondents would have impact investments since they all have sustainability funds. Danske Bank is taking another approach to this, as they do not claim to have impact investments now, but are preparing to make funds that comply with article 9 in the upcoming taxonomy regulation from the EU, which will be explained further in section 4 of this analysis.

The only company that says explicitly they have impact investments are PBU who defines it as "(…) Investments where we have an intentional and a targeted focus on both creating financial value while simultaneously creating social and environmental impact" (Appendix C, PBU). They have a target of making at least one impact investment every year following this understanding of impact investments where the main focus is on social and environmental gains alongside financial returns. This definition is similar to the one from the Global Impact Investing Network (GIIN), which states that "impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return" (GIIN, 2021). Following this definition, there seems not to be a need to compromise financial returns to make impact investments. However, these different understandings of the same concept illustrate one of the challenges in sustainable finance. It is hard for everyone to know when some action is widely considered socially responsible if it ever is.

The two understandings of impact investment presented previously reflect the two main approaches presented as dominant by Findlay and Moran (2019) when taking a trade-off between social impact and financial returns. The first is *the social first*, where the investor prioritises social and environmental impact first but has a lower limit to the financial return. The other being *finance first*, where the investor seeks to optimise financial returns, but with a lower limit to how much social and environmental impact the investment should have (Findlay & Moran, 2019). These diverging understandings of impact investment make it difficult to legitimise it, moreover, the use of it. Because it is challenging for any field to gain legitimacy when the fundamental understanding of it and its terminology is unclear (Findlay & Moran, 2019). This means, even though there seems to be a similar approach to impact investments, there are central differences in the definitions, which is most likely why only one of the interviewed companies claim to have impact investments.

The problem of different definitions and understandings of impact investment further stems from the difficulty of defining the elements of impact investments. First of all, it is hard to measure social impact, and then to define how much impact is needed to qualify as an impact investment is also tricky (Findlay & Moran, 2019). It is then again a similar problem as with the measurement of ESG as it is hard to integrate social and environmental performance the same way financial performance is measured, as the comparison would compare two different epistemologies (Lagoarde-Segot, 2019). Both ESG and impact investment are suffering from the lack of a clear and uniform definition of what is considered relevant and some guidelines for what is considered socially- and environmentally responsible. Furthermore, they are both limited by the epistemological differences within social responsibility factors and between sustainable finance and mainstream finance.

The focus on measuring sustainability indicates financialization of sustainability because it as a social phenomenon is being incorporated in finance on the premise of financial terminology and methods and is interpreted in a way that does not correspond with the sustainability epistemology (Lagoarde-Segot & Paranque, 2018). With the definition of financialization "a complex network of political, economic, technological and cultural processes by which finance extended its influence in social life" (Lagoarde-Segot & Paranque, 2018: 82). When financial actors are applying an understanding of sustainability that fits the financial epistemology, which is more facts-based and less value-based (Lagoarde-Segot, 2019), it is a modification of an aspect of social life that is being adjusted to finance in order to fit in the financial world. This understanding results in sustainable finance with finance as the primary determinant of value (Lagoarde-Segot & Paranque, 2018).

The problem of measuring sustainability in relation to ESG and impact investment is that finance is, to a high degree, evaluating their relevant parameters in quantity, whereas sustainable finance and sustainability, in general, is more qualitative in their approach (Lagoarde-Segot, 2019). This means it could result in a quantitative representation of sustainability factors usually presented relative to the reality surrounding them, but this representation to the context is hard to grasp with the quantitative methods used in finance (Lagoarde-Segot, 2019). Hence, it is at risk of not getting an accurate view of a company's actual sustainability performance. This means that the implementation of sustainability in finance might lack the actual sustainability performance.

The respondents from the Danish financial sector seem to try to mitigate this possible lack of accuracy in sustainability performance by using their ESG-overlays to analyse the companies further before they invest. However, it seems that these overlays are still with the purpose of financialization. Because it is still a way to interpret the sustainability impact of a company to evaluate the sustainability risk; hence, it is still a financial evaluation of sustainability and a financial interpretation of social responsibility.

It is one thing not to grasp the total value of a company's sustainability performance by using ESG-ratings since it combines three very different aspects of social responsibility, and getting a rating combining these three aspects can be challenging. However, when there is a difference in the epistemologies within these three sustainability aspects (Vildåsen et al., 2017), it is even more difficult. Because it takes very different methodologies to understand the impact of each, and they cannot be measured as one given that the outcome of an analysis is presenting different value measurements. The environmental part has a highly quantitative measurement of the value and impacts an action has, while the social has a more qualitative approach, and the governance part consists of a mix. Hence it is hard to get to a united value of the three without compromising one or two of them.

> But it is a really nice approach they have, where for each industry, they find out which parameters that are highest… What is a company most exposed to risks within ESG if they come from a specific industry? (Appendix D, PKA, our translation).

This quote can be seen as an attempt to accommodate the challenge of combining the three areas within ESG by using a provider that prioritises them according to the relevance of the sector the company is operating within. Hence a way to get a more accurate impression of the company's sustainability impact.

4.3.3 Prioritizing E, S and G

When looking at how the Danish financial sector companies prioritise the different aspects of ESG, further differences occur between them as the three pillars, environment, social and governance, are not equally weighted among them, and some have chosen to focus more on one than the others.

> We like that there is a reasonable balance in it, right?. However, it is obvious that we have a social focus: on responsible taxation, women's rights, and workers' rights and human rights. And it is not because the climate is not important to us too, it certainly is, but we try in our own work to highlight social conditions (Appendix C, PBU, our translation).

> I think our customers, in general, weigh E (Environment) very, very high. And then I think some customers only look at the E or have an understanding that sustainable investment is only about the E(Appendix E, SydInvest, our translation).

These are just two examples of different priorities within ESG measures and investments. At the same time illustrating how central the demand of the customers or members are to how ESG is used to direct investments in a certain way. As long as there is still a balance between the three, so they do not neglect one or two of them to focus on the remaining. However, it also illustrates the complexity of sustainable finance, as a group of customers or pension funds members have a hard time grasping the depth of sustainability in finance and that it is not only about the environment. As the quote above indicates, this influences the way the financial sector directs their socially responsible investments. Furthermore, indicating the importance of the customers regarding sustainable finance and responsibility. Hinting at what role ESG is actually playing when the Danish financial sector is making investment decisions or are using active ownership to influence the companies they are invested in.

> There will always be some ESG on all boards, but there is no checkbox we have to go through. We look at the business-critical things. Everything else does not matter. We will not assess whether Maersk has saved 10,000 plastic cups this year. We always have this investment perspective. What effect does it have on our investments? That is our most important task. It is to provide returns (Appendix F, Danske Bank, our translation).

> We will not make a green investment if it is not at the same time plays on the other parameters, such as reasonable returns, that are important to make an investment. So when we consider green investments, a wind farm or a fund. Then it must also be attractive on the financial parameters in the same way as the ESG conditions (Appendix D, PKA, our translation).

These quotes underline how ESG factors are an analysis tool equal to many other tools in the pursuit of financial returns. This means that they are not just investing in a company because they have an excellent ESG-rating. There has to be some financial potential as well, leading back to ESG as a way to measure an investment's risk primarily long-term. This way of using

ESG means that it is not a decisive factor in the broad investment universe, but more a supporting factor in the sense that it does have some role to play in investment decisions, but at times other parameters take priority in order to reach financial gains.

Based on the interviews, ESG-ratings play a more significant role in the specific socially responsible funds all of the involved companies have, but as PKA mentions, this is still with a focus on financial returns. They argue that none of their investments compromises returns; it is just that some of them focus on benefitting sustainability at the same time. These specific funds focused on social responsibility seem to be where ESG is used and have the most influence on investment decisions. However, it seems to be used more as a first screening before a more thorough analysis is made with the ESG-overlays to determine which investments to make that fit the specific social responsible fund's theme. More generally, ESG seems to be a factor that is used purely as a financial tool to measure long-term risk; by that becoming a fully financialised conception of social responsibility, as finance is making their own understanding of the social life phenomenon of social responsibility and interpreting it with the financial discourse.

4.3.4 Section Conclusion

To sum up the use of ESG and impact investment in sustainable finance in the Danish financial sector, there are some challenges in defining impact investment, which means only one respondent argues that they use impact investments, but the rest have investments with an impact. This discrepancy stems from different definitions, so if impact investment is something that should be widely used in sustainable finance, a clear definition is needed. Both impact investment and ESG have challenges in determining an actual sustainability impact because of the difference in epistemologies in finance and sustainability. This can potentially lead to the financialization of sustainability when the financial epistemology is used to determine sustainability impact and cause a conceptual reduction of sustainability. This implies that the incorporation of sustainability in finance through impact investment and ESG can be with an unintended reduced role to sustainability.

ESG is used more than impact investments because ESG is better suited to the financial way of thinking since it is collecting sustainability measures to a score that can be part of a risk assessment. On the other hand, Impact Investment requires that the investor includes non-financial parameters that do not directly influence the financial return and perceive this as a value added for the investment.

4.4 The Danish Financial Sector's Perception of Responsibility

4.4.1 Financial vs Social Responsibility

Sustainable finance is related to companies' responsibility, both those receiving an investment and the companies in the financial sector making an investment. Sustainable finance usually measures how responsible a company is, and the financial sector can then be more or less responsible depending on how many responsible companies they invest in. Thus, it is crucial to understand how the financial sector perceives its responsibility in this regard. It tells a lot about what sustainable finance is, continuing the epistemological challenges addressed in previous sections. In addition to how this understanding of responsibility aligns or differs from the understanding prevalent in social sciences.

The respondents from the Danish financial sector are aware of their responsibility as a financial institution. They are aware that they have the means to make a difference towards promoting socially responsible initiatives through their investments.

> So it is with the desire to know about our responsibility. We know well that we can influence a different way than a consumer can do, by perhaps switching from one technology to another. There you can just influence much stronger through a large sum of money. And we are very aware of that, and it is also a responsibility that we would very much like to pay for, and therefore also contribute positively to the sustainable agenda (Appendix B, BankInvest, our translation).

This quote illustrates the awareness of their opportunity to influence the social responsibility agenda by directing their investments towards socially responsible companies or sustainable activities. Furthermore, it has a more significant impact the more money they have available for investments. It is mentioned here that BankInvest wants to contribute to the sustainable agenda as part of their responsibility as a financial institution, which is agreed upon across the respondents, and there seems to be increasing attention towards this.

> And it has really just been increased, so it has more and more significance in investment strategy, where we have now also gained focus here since last year. There we also started something new like setting a goal for us to invest in more social investment, and there we found out, and I think we have between 7 and 8 billion invested in social investment. (…) We have proposed a goal that we want to have ten billion kroner invested in social investment and 50 billion in green investments before 2025 (Appendix D, PKA, our translation).

This statement contextualises how much is invested by just one company in socially responsible investments according to their social responsibility understanding. It shows how important sustainability is when a pension fund sets targets to increase their social investments by more than five times. They intend to have an even more significant impact on the sustainability agenda by increasing their amounts invested in sustainability and social responsibility. This makes it even more important to have a common understanding of sustainability to ensure that these amounts are placed where they make the most significant impact. As previously outlined, the understanding of sustainability and social responsibility in the financial sector is not necessarily aligned with the understanding coming from the epistemologies for social and environmental issues, which means that the money might be led in a different direction as to what is an optimal investing strategy to promote social responsibility according to the epistemology prevalent in sustainability. This is why awareness of the different epistemologies is essential to understand for the financial sector so they can make better investment decisions that meet their sustainability ambitions.

At the same time, the respondents explained that their primary responsibility is to their customers and pension fund members to ensure their financial expectations are met. With the caveat that the pension funds explained, they have an equal responsibility to secure financial stability when their members retire, along with a responsibility to ensure their members have a better world to retire in.

> If you think about the business realm, we are in the pension business. We are supposed to make sure that our clients can retire comfortably. However, that is not only about money. If we do not take care of the world, they do not have a comfortable place to retire (Appendix A, AP Pension).

For the pension funds, their responsibility towards their members is twofold, to ensure the world is in a comfortable place and that they can have a comfortable life financially. Furthermore, they argue that once you have the means to make a difference through the financial capital they are distributing through their investments, you have to administer the financial capital responsibly. Therefore they recognize a responsibility beyond their members, their financial security and societal stability.

When the respondents express their targets of taking responsibility within social and environmental issues as a responsibility alongside financial returns, it indicates that the financialization is not as prevalent and explicit as Lagoarde-Segot & Paranque (2018: 85) states when they, for example, write "To summarize, financial theory, through the effects of its avowed positivist "neutrality", de facto reduces the societal debate to technical considerations, thereby helping to maintain a system of domination benefiting the holders of capital". This cynical understanding of finance consolidating their position of domination at the cost of the societal debate is not what is expressed in the interviews, most evidently seen by AP Pension explaining that their responsibility towards their members is not only about money. They also have to take care of social and environmental issues to secure a world worth living in. Hence, the argument that financial theory helps maintain a system of domination that benefits holders of capital are not reflected in the Danish financial sector practice.

> I think it goes back to that we have a responsibility towards our client to make sure that they can retire comfortably. Yeah, but so then our other stakeholder is the world. Basically, we do feel that we have a responsibility there, too, since we have the means (Appendix A, AP Pension).

This quote underlines that the dominant position the holder of capital has comes with a responsibility that AP Pension is ready to confront and live up to. Nevertheless, the whole world seems like a substantial stakeholder to have responsibility for, given that it is hard to make your influence count on such a large scale. It is impossible to determine whether or not a pension fund like AP Pension is living up to the responsibility since there are so many factors influencing the world. It is intangible, which makes it impossible to determine if they have a positive or negative impact, or if the impact is due to their efforts or due to other actors who also influence the world. The world is a vague stakeholder to prioritise since it is so vast that almost every investment will impact the world, meaning that it is hard to be held accountable for. To narrow the scope of the stakeholder too, for instance, environmental issues in the world would make it more tangible and easier to reflect in the actions of the pension fund. Hence it would be possible to see if they live up to the responsibility, or at least if their actions and decisions support this responsibility. When the whole world and implicitly everything in the world is a stakeholder, then every action will have an impact, and most of the actions will have both good and bad impacts.

Lagoarde-Segot and Paranque (2018) present finance as falling between science and ideology as it claims a method of verification and reproducibility of results but has an inherent conception of human relations. This inherent conception of human relations leads finance to a reduced understanding of concepts limited to empirical observations that do not comprehend the observed object's social relationships and structures around it (Lagoarde-Segot & Pranque, 2018). Thus, having the world as a stakeholder or making a positive impact from directing capital in a socially responsible direction can be a victim of the embedded financial behaviour and ways of working with finance and measure the success of a socially responsible investment without taking the social structures into account. It does not seem like AP Pension has such a narrow financial perspective on their responsibility and human action since they, for instance, focus on comfortable retirement for their members, which implies the social structures around them are prioritised as well.

4.4.2 Different Perspectives on Responsibility Within the Financial Sector

Regarding the Danish financial sector's responsibility, there seems to be a difference between the respondents as the pension funds all mention the responsibility for ensuring a comfortable world to live in as part of their responsibility towards their members. Conversely, the banks focus more on their financial responsibility as in their responsibility to secure financial returns to their customers as the primary responsibility.

> It has great importance in the general thinking that we are put in the world to make a financial return for our investors. Furthermore, it is probably also important to keep in mind that our primary task is to make this financial return for investors. But we do like to do it in a sustainable way (Appendix E, Sydinvest, our translation).

The customers' expectations are different of a bank than a pension fund, which results in this different take on the responsibility. The difference further illustrates the importance of the customers regarding which direction the financial sector takes their investments; it is evident from this quote that the banks have a primary and a secondary objective for their investments, and the financial return is the primary objective. Social responsibility comes second, contrary to the pension funds where it seems like the two are closer to equally weighted. This difference could be related to banks' tendency to have a more short-term focus on investments to secure the financial return; they are evaluated often and need to show progress and returns to their customers (Polman & Tómasdóttir, 2020). The pension funds have emphasised in the interviews that they have a long term focus on their investments as the main aim is to secure financial security when their members retire, along with a healthy society to retire in. This means that pension funds have a better chance of reaching the twofold ambition of financial returns and socially responsible impact. Social responsibility is more of a long-term project for the companies. Hence the investments should be long-term to support this project (Polman & Tómasdóttir, 2020). The difference between banks and pension funds is further evidenced in the interview with Mads Steinmüller, who represents both Danske Invest and Danica Pension and illustrates some of the differences here:

> Yes. So Danica has a little more assets. We also invest a lot in alternatives, private equity, and real estate, which accumulate some slightly different things to take into account. Where we at Danske Bank have traditional asset classes, you could say. So it's a bit different. Danica also has the opportunity to do some other things, for example, to be part of something like the Net Zero Alliance. They can do it a little differently. The responsibility is perhaps also a little more significant with Danica because they are the ones who own the assets in principle. Where we do not do that in Danske Invest or asset management. So there are some other things to consider in the area of sustainability there (Appendix F, Danske Bank, our translation).

The main difference stated here is that Danica Pension has the freedom to join the Net Zero Alliance and own the assets, unlike Danske Invest, which manages them on behalf of the customer. Therefore Danske Invest cannot as freely decide what they do with the assets they are managing. This difference seems to give Danica the freedom to have this long-term focus, allowing them to make more sustainable decisions, such as joining the Net Zero Alliance. The fact that Danske Invest manages the assets means that it is the customer's decision to focus on sustainability. However, the bank still has the opportunity to make attractive, sustainable portfolios; given that they claim sustainability and returns go hand in hand, it should be easy to make attractive, sustainable products that secure the same financial returns. Suppose you accept the premise of sustainable investments having competitive returns. In that case, there is no reason for the bank not to live up to its responsibility and make sustainability have a more significant share of the investment portfolio.

4.4.3 The Impact of Responsible Actions

The respondents have different approaches to live up to their social, environmental and financial responsibility. Negative screening, as explained previously, is not considered the most effective way of impacting companies to be more responsible and is seen as a last measure when the other methods are insufficient.

> We invest in companies, and we have a responsibility to influence their behaviour. And then, of course, we have refined our approach, and we have also had to acknowledge that if you have extensive ownership, then there are many companies that you cannot cover by your active ownership, and even with 600 companies, then it is in the upper range (Appendix C, PBU, our translation).

Active ownership, as described here, is one of the most prevalent methods to try and live up to their responsibility by guiding the companies they are invested in, in a more responsible direction. PBU has taken the consequence in this regard and reduced their portfolio to better influence the companies in the direction they find suitable to promote sustainability. They have a target of reducing their portfolio to only 300 companies to control their investments better and make sure to be able to use active ownership on all of them if necessary.

When working with socially responsible investments, the social responsibility department among the respondents has guiding roles for the portfolio managers who are then making the investments to what the requirements are for sustainability. They help the portfolio managers analyse the companies' sustainability performance. They play a role in controlling that a portfolio is living up to the company's sustainable requirements. There seem to be different challenges as some of the respondents experience reluctance to include sustainability factors. "But there is still scepticism among financiers. Many financiers think it is… I do not believe they completely buy into the philosophy and value of it, but now it has just become a must" (Appendix C, PBU, our translation).

As it is considered part of their responsibility to be socially responsible, sustainable investments are becoming essential to living up to this responsibility. Therefore, the social responsibility department supports the portfolio managers by analysing, for instance, ESG-data and holding them accountable for living up to the company's sustainability objectives. This seems to be done in some places on a comply or explain basis, where the portfolio managers have to explain if they deviate from the sustainability benchmark they have to live up to (Appendix E, Sydinvest). Their explanation can be sufficient to invest in a company that otherwise does not live up to the standards required, but then the portfolio manager has made a deliberate decision and analysed the problems further to make sure they are being dealt with by the company.

Some companies in the Danish financial sector focus on informing their customers about sustainability and have dialogues with other financial institutions about social responsibility, as expressed by BankInvest in the quote below.

> So some more education has to follow. There is also a lot of knowledge sharing. Here, I think we are trying to take a social responsibility beyond what one might expect. I really think we are good at going out and taking our discussion up in our own circle of financial institutions, that is, going out and telling what taxonomy is and what is the overall sustainability regulation. And what does sustainability mean? And give them the material to their customers about what it means (Appendix B, BankInvest, our translation).

The internal discussion in the financial sector about sustainability can be seen to develop their understanding of sustainability further and align the way the sector is working with it. However, as with the epistemological challenges addressed with ESG and impact investment, the information they teach their customers and discuss with their peers will most likely reflect the financial perception of sustainability and social responsibility. The problem is that when the financial sector internally discusses sustainability, there is a risk that the financial epistemology will dominate the discussion since their common language is based on financial epistemology (Lagoarde-Segot, 2015). This common language will determine how the financial sector perceives sustainability, most likely as a quantitative, measurable phenomenon and then continue the financialization of sustainability by extending this financial understanding of sustainability to their customers through the education of the customers.

As a result of this, BankInvest is promoting the financialization of sustainability as part of what they do to live up to their responsibility, which is more beneficial to finance than to sustainability. The more finance influences the understanding of sustainability, the easier it becomes for finance to include sustainability measures in their decision making, as it now fits with finance epistemology. Nevertheless, it can result in negligence of the non-measurable aspects of sustainability, hence not capturing the total value of sustainability and focusing more on some aspects than others. It could be beneficial to include non-financial actors in the discussions to get a more nuanced picture of sustainability.

The epistemological challenge of the internal discussions about sustainability in finance stems from mainstream finance operating with a flat ontology (statements about knowledge). This means that the knowledge claims made in mainstream finance are based on assumptions supported by empirical regularities (Lagoarde-Segot, 2019). Hence their epistemology (sources of knowledge) are reduced to their financial terms translating empirical data to variables that can be measured and fit into the financial discourse (Lagoarde-Segot, 2019).

The problem is that it fails to capture the value of a firm's performance that is not reflected in the financial terminology. This implies that the discussions about sustainability in the financial sector will be at risk of being on the premise of finance, in the sense that when sustainability is discussed with financial terms, the social context is not fully grasped, and the value of sustainability is not complete. This lack of value capture in sustainable finance and the financialization of sustainability via the financial institutions teaching their customers about sustainability could result in a reduced and uniform understanding of sustainability. This reduced understanding of sustainability could fail to explain the relation to the circumstances relative to the sustainable action and what impact the sustainable action could have, which is not measurable with the financial tools and terminology available.

4.4.4 Section Conclusion

There seems to be a difference between the bank and the pension funds regarding how highly sustainability is prioritized. In the banks, the absolute main priority is to secure the financial return, and sustainability is second. At the pension funds, financial return is the most important as well, but sustainability plays a more prominent role than at the banks. One pension fund even said that the world is their stakeholder, which illustrates that sustainability is crucial. However, at the same time, the world as a stakeholder is very intangible, which means it is hard to live up to the sustainability responsibility.

It is evident that sustainability has great importance to the Danish financial sector when they place sustainability as their second responsibility behind financial returns. They have different approaches to live up to their sustainability responsibility, where concentrated ownership and informing customers were mentioned as examples. When informing customers, the financial sector is risking contributing to the financialization of sustainability, which can lead to a reduced and uniform understanding that does not take sustainability epistemology into account.

4.5 Sustainable Finance as a Win-Win Situation

4.5.1 Do Sustainability and Finance go Hand in Hand?

As all of the respondents have acknowledged, they have both a financial and social responsibility to live up to. They also claim that they can do both without compromising one; most of them even claim that the two always positively impact each other.

> I believe that our philosophy around that financial return and sustainable return can go hand in hand. So, we can consider many of these factors of sustainability and see that many of the things we then identify are actually risks that can ultimately affect the financial return. So by making an investment process, where you also look through what are the sustainability risks associated with an investment, you also cover many of the other risks that, so to speak, affect the financial return of investment (Appendix E, Sydinvest, our translation).

First of all, when sustainability is used as a measure of risk and gives the investor an indication of the potential long-term risk of investing in a company, it can be said to go hand in hand with financial performance. Due to high sustainability performance, a lower long-term risk, according to the financial take on sustainability, can correlate with financial returns (Firmialy et al., 2019). This is, however, not solely due to the sustainability performance, as most of the respondents say sustainability risk is only part of the risk assessment and cannot stand alone. To claim that financial returns and sustainability returns go hand in hand because sustainability is part of the risk assessment is a reduction in the scope of sustainability in the investment. It illustrates a prioritization where sustainability has to fit within finance and find a place where it contributes to the financial return.

It is clear that sustainability is translated to fit the financial discourse, as it is used as a parameter to determine risk and therefore is more of a supporting aspect than an aspect constituting an independent value. This means that the win-win argument, where finance and sustainability go hand in hand, is related to two values that, in the end, is supporting one value in the financial returns. Having this risk assessment focus on sustainability limits sustainability in terms of complexity, as there are most likely some parameters they are not looking for. The risk assessment focus on sustainability further implies that they evaluate it with a financial epistemology. The win for sustainability is uncertain as the knowledge about it is misjudged by using a different epistemology than the one applicable to sustainability.

> So it goes hand in hand. You cannot make me say otherwise. But the return is what we are put in the world for. It is a bit of a balancing act. You are not going to make a 100% coal fund. We also do not believe that it can create returns. We do not compromise on sustainability because we want to make returns, but we do not either compromise on returns because we want to make sustainability. That is part of it (Appendix F, Danske Bank, our translation).

There is no doubt that the financial sector in Denmark experiences that sustainability and financial returns complement each other, or at least that there is no compromise when focusing on the two in investments. It seems like they are not reducing their opportunities significantly when considering sustainability factors. Hence, they argue, have plenty of opportunities to seek financial returns while having sustainability in focus.

> This is also what, with our analyses, has shown that it can easily go hand in hand. So why not do it? It is an insurance against getting on the front page. (...) But we also want to be involved in the best and therefore be able to make a real impact, and in that way, through our capital, contribute to the fulfilment of the UN's Sustainable Development Goals and, of course also the long-term goals of the Paris Agreement (Appendix B, BankInvest, our translation).

The quotes above, which state that sustainability and financial returns always go hand in hand, can be criticized for being overoptimistic and can be compared to King and Puckers concept of win-win strategies (King & Pucker, 2021). They argue that sustainable business strategies are often based on magical thinking that sustainable action and profit positively influence each other, which is often presented without empirical evidence. The respondents were reluctant to talk about trade-offs with sustainable investment, which especially could be seen with Danske Bank, who said: "So it goes hand in hand. You cannot make me say otherwise" (Appendix F, Danske Bank*,* our translation). This shows that they blindly follow the principle that sustainable investment is a win-win. It could result from the win-win discourse being so prevalent in sustainable finance that it has become a dogma (King & Pucker, 2021). This win-win dogma can indicate that the financial sector takes it for granted that sustainability and financial returns go hand in hand. However, there is no evidence that there is a correlation between sustainability performance and financial performance reflected in a company's stock (King & Pucker, 2021). When the financial sector still believes in a win-win situation for finance and sustainability, it could indicate a too simple perception of sustainability where it is easier to see positive impacts. Furthermore, when their analyses show it goes hand in hand, it seems like these analyses are too financial in terms of epistemology. Hence, they show a different picture of the sustainability impact than the more in-depth sustainability analysis could show, based on relevant epistemology in sustainability.

Suppose these analyses and the parameter for socially responsible investments are equal to those presented earlier and explained as the tools used for socially responsible investments, such as ESG and active ownership. In that case, the same problem occurs as the parameter for claiming that sustainability and financial returns go hand in hand is the financialized version of sustainability, which lacks the complete conceptualization of sustainability. The non-measurable aspect of it cannot be taken into account, which means that the sustainability that goes hand in hand with financial returns lacks depth and could benefit from a multidisciplinary approach to fully grasp the value of sustainability and then understand if that value is benefitting from the investments (Lagoarde-Segot, 2019).

Despite the win-win experience when investing socially, several respondents mentioned that financial returns are the main area of responsibility in the financial sector. This is not a decision made purely by the Danish financial sector but also a result of the Danish Financial Supervisory Authority requiring that the financial institutions do not compromise financial returns.

> Their [The portfolio managers] most important task is to create returns. This is also what we see with most of our customers. Well, the Danish Financial Supervisory Authority says that you should not compromise on returns. That is our role. We must then integrate sustainability. After all, there are plenty of challenges in integrating sustainable investments (Appendix F, Danske Bank, our translation).

It means that when they have to focus on the financial returns when investing socially responsible, it could limit the freedom to make too radical socially responsible investments. However, as explained on the previous page, the Danish financial sector experiences no trade-off between sustainable investments and financial returns, which means there is no problem making sustainable investments. If this is the case, there should be no reason for the financial sector not to increase their share of sustainability-related investments since it means they can generate a good financial return at par with non-sustainable investments. At the same time, live up to their self proclaimed responsibility to have a positive, sustainable impact.

The argument about the Danish Financial Supervisory Authority requiring no compromise on returns was presented as a supporting argument of their focus on financial returns taking priority over social responsibility. Financial returns can even be greater when investing socially responsible, supporting the respondents' win-win discourse. When asked why Danske Bank and Danica Pension are interested in sustainable investments, the reply was:

> Yes, one of the reasons is that we do it for the return. However, the other reason is that we want to take social responsibility and turn the world in a better direction. We have the opportunity to do so because Danske Bank, as well as with Danica, is one of the Nordic region's largest investors, so we have a great opportunity to influence the companies we invest in (Appendix F, Danske Bank, our translation).

This quote clearly shows how the financial returns take priority, and social responsibility follows in second. It implies that when Danske Bank and Danica Pension make investment decisions and use active ownership, they have a financial focus that can influence how they direct companies on social responsibility issues. It can be argued that when they have to consider both financial and social aspects and clearly have financial returns as the primary focus, they are likely to follow a financial rationality when turning the world in a more sustainable direction, which means that they are further strengthening the financialization of social responsibility and sustainability.

4.5.2 Section Conclusion

To recapitulate the previous section, the Danish financial sector believes that financial return and sustainability impact go hand in hand when making sustainable investments. The win-win aspect is presented as sustainable investments can generate a more significant profit while simultaneously protecting them against backlash and making the world a better place.

The win-win situation in sustainable finance is based on a use of sustainability as a measure of risk, hence a reduced understanding of sustainability. Furthermore, the financial return is prioritised higher than the sustainability impact among the respondents. As a result, it is a win-win situation from a finance perspective which can influence how sustainability is perceived and perhaps make it a more straightforward win for sustainability. Given that it is believed that finance and sustainability go hand in hand, it can be questioned why the financial sector does not have more sustainable investments.

4.6 Taxonomy for Sustainable Activities and the Complexity of Sustainable Finance

4.6.1 The Complex Understanding of Sustainability

A common theme in the interviews is that the respondents have said that it can be challenging to incorporate sustainability because sustainability means something different to each person, which, for example, can be seen in the interview with AP pension.

> Because, again, sustainability means something different to every single person you ask, and you run into the problem all the time… when people think sustainability, they think green, they think climate, and for us, sustainability is so much more than just that (Appendix A, AP Pension).

The lack of a universal understanding of sustainability in investment makes sustainability a complex topic where the individual firm mainly relies on themselves to define what sustainability is, which makes their definition of sustainability different from other firms:

> However, it is, in fact, on Facebook and Google where some of the biggest competitors in the world strongly disagree about sustainable companies. It is controversial to tackle. I really think that the biggest challenge the industry has to face in the short term is to go and find a definition for sustainability (Appendix E, Sydinvest, our translation).

This problem can also be related to the issue of differently evaluated ESG scores, which for example, could be seen with Tesla from the section Criterias for Negative Screening and the Role of Norms (4.2.1). The companies in the Danish financial sector have to collect data themselves from different ESG providers in order to get a more complete picture of the firm's real sustainability impact. This especially seems to be a problem in the smaller financial firms that do not have the resources to pay for- and collaborate with multiple ESG providers. PBU addresses this as a fundamental problem since they become too dependent on one provider (Appendix C, PBU). On the other hand, Danske Bank said in the interview that they use multiple ESG providers to get a more nuanced picture of their sustainable risk factors since each of the ESG providers is good at different aspects of ESG.

The supplier dependency means that the financial companies have to trust the understanding of sustainability the ESG-provider has. Nevertheless, as the quote above states, there is substantial disagreement between ESG-providers whether some of the biggest companies in the world are sustainable or not. This means that when you only have the resources to have one provider, you have to choose carefully which one aligns best with your own understanding of ESG. Danske Bank and BankInvest were the only respondents who mentioned that they have more than one ESG-provider to accommodate this discrepancy. When each of them is better in some areas than others, having more than one ESG-provider is a way to accommodate the problem Vildåsen et al. (2017) presents, as they address some epistemological challenges when social and environmental values are combined. This stresses how complex sustainability actually is when the two main areas have to be evaluated separately to gain information about their actual value. This is to some degree accommodated by involving different ESG-providers with different specialisations. However, the fundamental problem is that they give one overall ESG-rating that necessarily combines social and environmental values.

Another theme that can be seen from the interviews is that when it comes to the complexity of sustainable investments, the members or customers of the companies seem to have a different understanding of what sustainability is and how much it should be weighted in investments. Danske Bank and BankInvest said that their customers disagree a lot on what is sustainable; this can, for example, be seen in the quote below from Danske Bank:

> We here at Danske Bank have 1 million customers across the globe, so we can not just take a narrow approach. We will have to have a broad approach to be able to adapt to all our customers. Sustainability is not black and white. It is important to tell our customers that we have some robust processes around some governance. But we have a systematic approach, not just putting a finger in the air (Appendix F, Danske Bank, our translation).

PBU and PKA mentioned, which was also emphasized in previous sections, that their members are generally focused on working conditions, leading them to focus more on social aspects in their ESG scores and be more focused on making their influence count in companies that treat their workers poorly. However, both PKA and PBU acknowledge that their members have differing interpretations of sustainability and responsible investing. AP pension and Sydinvest, on the other hand, mentioned that their members are more focused on the environmental impact when they think about investments.

> As a product provider, we have an extensive customer group with very different perceptions of sustainability. So we can not just define it for them. The E in the ESG occupies our members more than the E and G. Our job is to get a little ahead of things since our customer group right now does not have a specific demand for sustainability (Appendix E, Sydinvest, our translation).

Even though the respondents from the pension funds mention that their members have a more identical understanding of sustainability, they still argue that their members are conflicted in defining precisely what sustainability is. Some of the companies in the financial sector have sought to solve this problem of a different preference towards sustainability by providing multiple sustainability-focused products. Sydinvest, for instance, has four different kinds of sustainability and social responsibility products that are based on a different preference for sustainability: Sustainable stocks (firms with low carbon emission fund), Morningstar Sustainable Leaders Index fund (top 100 leading companies within sustainability), High-interest Countries ESG fund and Ethical funds (funds based on responsibility). These different sustainability funds result from Sydinvest having to accommodate their customers' different understandings of sustainability; it underlines how complex sustainability is when there is no common framework for sustainability in finance. It leads Sydinvest, in this case, to make broad sustainability funds and more of them to accommodate the different perceptions of sustainability. When they have to use resources on this broader approach to sustainability and in many different funds, it limits them from working in-depth with the complexity of sustainability in finance.

Danske Bank also mentions that their pension fund Danica Pension gives people the option for deciding how much of their pension should be invested in sustainable companies. However, both Danske Bank and Sydinvest mention that the demand for sustainable funds is relatively small since their customers focus more on their profit (Appendix E, Sydinvest, Appendix F, Danske Bank). As mentioned earlier, PBU is narrowing their portfolio both to have a better chance of using active ownership. At the same time, it is an opportunity to concentrate their resources on fewer companies and get a more in-depth understanding of sustainability in these investments.

The respondents address a lack of a uniform understanding of sustainability within finance and between finance and their customers due to the complex nature of sustainability. This is why Danske Bank is taking a broad perspective on sustainability, and Sydinvest has many different sustainable portfolios. The complexity of incorporating sustainability in finance is exemplified by the lack of uniformity in the ESG-ratings with the epistemological challenges explained earlier. The different ESG-ratings illustrate the complexity of combining sciences with different epistemologies (Lagoarde-Segot, 2019). The attempt among the respondents to focus sustainable portfolios on one of the ESG-parameters can be seen as an attempt to simplify sustainable investing and make it more precise.

To seek a common definition of sustainability could be a solution to the complexity problem, but it is with the risk of financialization of sustainability (Lagoarde-Segot, 2017). Financialization of sustainability would imply seeking an objective definition of sustainable, functioning as a kind of answer to what is considered sustainable in finance's eyes, thus reducing this objective definition not to include the social context (Lagoarde-Segot, 2015). Suppose the common guidelines are made as the financialization of sustainability. In that case, it may result in a too simple understanding of sustainability that is too easy to incorporate in finance and result in a reduction in the complexity in sustainability that devalues it considerably.

4.6.2 Simple Interpretation of Sustainable Investment

The findings from the interviews show that some of the financial companies in this sample can be said to have a simple or perhaps broad approach to incorporating sustainability into their financial investment strategies. One example that can illustrate this can be seen in the quote from BankInvest.

> In other words, we believe that sustainability can be used broadly if you have a portfolio that contributes overall to the UN's Sustainable Development Goals and has a CO2 reduction objective. We believe this is very sustainable (Appendix B, BankInvest, our translation).

The problem of having this approach to sustainability is that it is sustainable if it lives up to the UN’s Sustainable Development Goals. Every investment could be considered to contribute to one of the goals since the SDG's covers topics such as no poverty, decent work and economic growth (THE 17 GOALS | Sustainable Development). Another more fundamental problem by having this approach is that there is no link between a specific SDG and how an investment actually contributes to helping the specific problem, thus, arguing that investment is sustainable if it is thought to contribute towards one or more of the SDG's is problematic. Having this broad approach to sustainability based on the 17 SDG's can be seen to be a simple understanding of sustainability, where the SDG is more used as a checklist instead of a principal stance on sustainability (Vildåsen et al., 2017).

However, some of the respondents seem to recognize that the financial sector seems to handle sustainability in a more simplistic way, where it becomes a sort of checklist, which then becomes a sort of symbolic sustainable action. Sydinvest, amongst others, said that it could be easy to be sustainable on paper by excluding the worst of the worst (negative screening), but that will not make a real, sustainable impact. Rasmus Juhl Pedersen from PBU mentions that a lot of companies in the Danish financial sector use active ownership as a defence mechanism:

> There has been a bit of a tendency for it to become a defence mechanism. If you were criticized, you threw away the active ownership card and said, well, we are in dialogue. So there has been a transition where there were some also big players who were not serious about active ownership (Appendix C, PBU, our translation).

This can be a result of the complex nature of sustainability in finance. When there has been so much attention to sustainability in recent years, most companies both in the financial sector and outside the financial sector have been almost forced to make sustainability initiatives. This has made them use some of the tools related to sustainability and social responsibility, such as negative screening and active ownership, which have made them sustainable on paper. The complexity, along with a lack of a uniform definition of sustainability, means it is hard for the financial sector companies to know how to act in accordance with sustainability. They have had to hold on to some sustainability-related conventions such as the UN Global Compact that can help to guide them. However, it is only an indication of intent and not binding in any way, so they are not held accountable through the UN Global Compact. The upcoming EU taxonomy regulation could help solve this issue.

4.6.3 EU Taxonomy for Sustainable Activities - a Possible Game Changer?

Most of the respondents have a positive view on how the future EU taxonomy regulation will influence the financial sector where three of the six firms used the word gamechanger; one of them can be seen in the quote below from BankInvest:

> So it may very well become a game changer in the financial field. The taxonomy in isolation is a classification system, a language for what sustainability is. Right now, it is only on the environment that the two goals that first come into force are only in the field of climate. That is, CO2 reduction, but it means that all of a sudden you can only speak the same language. Because if we are to define something sustainable, today we will do this in a completely different way than our competitors do (Appendix B, BankInvest, our translation).

The respondent has further argued that the taxonomy will create transparency on what can be defined as a sustainable investment. It provides a proper framework for how investors can work with common sustainability definitions instead of just working with sustainability by their own principles. This could create transparency across the whole financial sector. The quote above shows that the lack of a common framework means every single financial agent defines sustainability, which further complicates sustainability in finance. It does so primarily for the customers since one financial agent will have a different interpretation of sustainability, making it hard to know which one has the most significant impact.

When the companies in the financial sector have to make their own definitions of sustainability, it takes a lot of resources to define something that, in the end, does not have broad legitimacy. This situation has led them to tie their definition to internationally defined objectives such as the SDG's, which are not directed at finance. This leads to a sustainability application to finance that is lacking complexity, given that the resources are limited and the framework used to support it is too broad. As a result, the financial definition is at risk of incorporating what Vildåesen et al. (2017) explain as weak sustainability where financial, environmental and social capital is interchangeable. This is an insufficient implementation as the values of these three capitals are epistemologically different, which means it will compromise their values since the source of the values is then entangled methodologically. The taxonomy regulation can be a framework that accommodates strong sustainability

(Vildåsen et al., 2017). Strong sustainability implies that there exist fundamental differences between finance, environmental and social aspects, and they should be considered separately. The taxonomy speaks into this by solely focussing on environmental challenges, hence separating the three capitals.

The taxonomy and disclosure regulation is also viewed as an important step to counteract greenwashing since it will make companies more accountable for measuring their sustainable impact while also providing a framework for investors to see what sustainability actually is.

> I think it will be a crucial framework to make sure that there is no longer...It will be easier for the investor to identify green investments that you can feel certain about without having to fear the risk of being exposed to Greenwashing (Appendix D, PKA, our translation).

Some of the respondents have also stated that the regulation will make it easier for them to work towards sustainable investments when it comes to impact investing, which for example can be seen in the interview with Danske Bank:

> Article 9 is what I think is going to be impact funds. This is where you really invest in sustainable activities that are already sustainable today, i.e. are not underway but are already sustainable today. Moreover, there are some considerable limitations regarding what one can invest in, in these products. I would call it impact funds; that is my definition of an impact fund. You both show you make an impact, but you also show that you can get a return that is on par with so many other things (Appendix F, Danske Bank, our translation).

The quote above illustrates how a universal framework of suitability can help financial firms transition to incorporating sustainable products that seek to work towards sustainable goals since they now have a reference point on what sustainability actually is. Article 9 has been acknowledged by the respondents as a significant article since it defines what can be counted as environmentally sustainable since the sustainable impact is based on six criteria's: Climate change mitigation, climate change adaptation, the sustainable use of water and marine resources, the transition to a circular economy, pollution prevention and control, the protection and restoration of biodiversity and ecosystems (Lucarelli et al., 2020). This should make it easier for companies to identify environmental factors (Green bond principles) since they now are being labelled. As for Danske Bank, Mads Steinmüller argues that these measurable variables on sustainability help them incorporate sustainability in their investments since the taxonomy comes with specific environmental issues and goals; hence the sustainable action will be based on legitimized merits. This indicates that the financial sector, in some cases, finds it easier to make sustainable products based on a regulatory framework instead of their own definition.

There has been a tendency to mix social and environmental issues in the assessment of sustainability before the taxonomy, which is problematic because of their different epistemologies (Vildåsen et al., 2017). Vildåsen et al. (2017) argue that the complexity in sustainability must be solved through epistemological pluralism because their different epistemologies will bring challenges when they are combined. In the first instance, the taxonomy is focused on climate and environmental activities and not on social issues (Lucarelli et al., 2020), which means that it should be based on epistemology relevant to environmental issues. This specific focus on environmental issues ensures that the problems associated with mixing epistemologies can be avoided, as social factors do not have to be taken into account. Thus the financial sector will have a better idea of when they are making investments with a real environmental impact, and they will have a common language to speak from. In that sense, it could be beneficial to have an additional taxonomy for social aspects based on the epistemology applicable to gain knowledge about social issues, to provide guidelines to align investments that should make a positive social impact

4.6.4 Limitations of the Taxonomy for Sustainable Activities

Even though there is a positive attitude towards how the EU taxonomy will transform sustainable finance and be a possible game changer, there is still some scepticism towards it. One of the problems is the technical side since it will not be fully implemented when it arrives in 2022, which means it will be challenging to implement in the financial sector's operations, as they have to implement it gradually. Furthermore, they are very reliant on the companies they invest in to start to report on the issues the taxonomy consists of.

> The taxonomy is in the first phase, so many sectors have not even been described yet. There are many activities that are not yet described in the taxonomy, and they will develop that. The challenge with the taxonomy is that many of the companies do not even report on this, so there is a lack of data regarding the taxonomy as well. So it will be a few years before it is fully implemented. Which the EU has said itself (Appendix F, Danske Bank, our translation).

Most of the respondents have stated that another problem with the taxonomy is that not all of the criteria will be fully implemented but will be implemented later and that it in the first place only will account for environmental impact and not specifying social and governance issues. As mentioned previously, this focus on the environment is positive in an epistemological sense. However, the lack of social guidelines can result in a too-heavy focus on environmental issues compared to social issues. The environmental issues are more accessible to target in sustainable finance. Companies like PKA and PBU are not helped with the taxonomy regulation since they focus more on social impact.

> It is hard to say at the moment because there are only two sustainability criteria out of six, which have been determined as the ones you can invest in when investing in green activities. So as it is today, it is not possible to implement the complete Taxonomy yet. It will definitely be helpful once the whole taxonomy has been implemented incl. the last four criteria (Appendix D, PKA, our translation).

Another more fundamental problem for the Danish financial sector seems to be that the taxonomy will actually make sustainability more complex since every company's sustainability will be rated in their entire supply chain, which Sydinvest explained as:

> It becomes even more pronounced when the EU comes on board with their taxonomy because then the sustainable investment is moved to ... For me to see, moved to version 2.0, and then it becomes really complex, so all those simple considerations with sustainability disappear there. The simple thought that if you are a wind turbine manufacturer, then you are 100 percent sustainable. It is just not certain you are anymore… But I like the general idea behind the EU. I like… that they are trying to do this so that you can get a more realistic holistic view of sustainable investment. It will not be this simple estimation (Appendix E, Sydinvest, our translation).

The downside here is that it becomes more difficult for the financial sector to explain to their customers what sustainable finance is and why some companies are considered more sustainable than others when it is not as apparent as earlier like the Vesta's example suggests. On the other hand, it is a way to incorporate a more sophisticated framework for sustainability in finance which could have a significant effect. The quote above from Sydinvest illustrates how the taxonomy further complicates sustainable investments, but at the same time, moves it away from a simple understanding of sustainability.

Financial epistemology is based on the premise that knowledge is based on experience (stable reference point), in which an investor then makes their investment (Lagoarde-Segot, 2019). The introduction of fully implemented taxonomy/ finance 2,0 described by Sydinvest will force them away from their stable reference points, such as sustainability used in risk assessments and their superficial understanding of sustainability. Instead, they have to make analyses based on the guidelines the taxonomy provides. While all of the respondents have said that they are well suited to live up to the new criteria of the taxonomy, they have also addressed that they are spending a lot of resources on how they should operate after the taxonomy is implemented and how they should communicate this change to their consumers.

> That seems like a good idea. Nevertheless, when it becomes such a little broader talk, then it also becomes a bit complex, and then it is not certain that Mr and Mrs Jensen go to Sydbank and ask about something... Then they hardly come in and ask about a sustainable product (Appendix E, Sydinvest, our translation).

The taxonomy makes sustainability more complex since sustainability is based on multiple factors and can be counted in the entire value chain. However, this added complexity can, in some cases, have an unfavourable impact since the added complexity does not necessarily correspond with people's expectations for financial products. This means that the financial sector has an additional task of explaining the taxonomy to their customers and be deliberate about what it implies when they have to choose between sustainability products and non-sustainable products.

4.6.5 Section Conclusion

The findings show that the complexity in sustainable finance shifts from defining sustainability to instead on how they use sustainability when the taxonomy is appropriately incorporated. The respondents said that they have previously had trouble defining what suitability is, which has led them to define it themselves or based on their members' attitude towards sustainability. The taxonomy is seen as a possible game changer since it creates a framework for sustainable investment and how it should be measured. Another aspect that makes the taxonomy a possible game changer is that the taxonomy, together with the disclosure regulation, pressures companies to be more precise in providing reports on their sustainable impact, even though there is still some scepticism towards the taxonomy on the technical side. However, the taxonomy seems to create a challenge for the firms since it makes sustainable investment more complex; hence the Danish financial sector can no longer just use a simple understanding of sustainable investing but have to refer to the taxonomy. The taxonomy can potentially move sustainable finance in a direction where sustainability is more clearly defined and can be used more explicitly in investments.

5 Discussion

Sustainable finance is becoming a more and more integrated part of the investing strategies in the Danish financial sector and has a significant influence on how they invest. Not only for the portfolios dedicated to sustainability but also as a general risk analysis tool in every investment. Despite this, there are diverging impressions of sustainability and how sustainable a company has to be to qualify as sustainable. The respondents from the Danish financial sector have, for instance, different thresholds for which percentage of a company's revenue can be from fossil fuels for them to not invest in the given company. This illustrates the lack of guidelines in the field and the freedom the financial sector has right now regarding its definition of sustainable investments.

5.1 Epistemological Challenges with ESG

The financial sector is to a high degree using tools such as ESG-ratings provided by specialised ESG-rating agencies to get a common framework for sustainable investment. This seems to make a somewhat common playing ground for understanding sustainability performance if it was not for the fact that the most used agencies give different ratings to the same company. The difference here is central to a general problem in sustainable finance, namely that understanding sustainability is complex and that measuring and transforming it to something that can be used in finance is even more difficult, as they are two very different fields. The problem can be related to the different epistemologies in finance and sustainability. Finance, and the science behind it, has a lot more focus on the measurable and the possibility of converting every parameter that can influence the investment into something that can be calculated. It is very prevalent in ESG, where the ESG-agencies convert sustainability performance to a score that makes it possible to rank companies according to how well they do concerning sustainability.

On the other hand, sustainability is based on an epistemology that takes the surroundings a lot more into account, meaning that the same action can have a different impact depending on the situation and the surroundings. This distinction is difficult to convert to something quantitative without losing the essence of sustainability or socially responsible action.

ESG-ratings have many other challenges, for instance, related to data quality and quantity. Even more fundamental to these problems are how knowledge is generated based on the data provided by the companies the financial sector considers investing in. Following the epistemology used in finance, which is prevalent in the financial use of ESG-data, the data provided by the companies are analysed to fit within this existing financial discourse. As a result of this way of analysing, the focus is mainly on finding a method that can be applied across companies so that they can be compared and to some extent ranked; or at least be grouped with other companies having a similar either positive or negative impact. First of all, the issue is that sustainability is too dependent on the circumstances and is highly subjective regarding the impact. Hence it is hard to capture the value of the sustainability the companies are trying to contribute by having one method that should fit every sustainability-related action. A common method should not be a way to measure and get a definite value of sustainability but rather constitute some guidelines to make sure that sustainability does not allow for a too broad interpretation.

When ESG factors are reduced to this attempt to make them objective with the aim to make them calculable in terms of risk of a particular investment, it is furthermore a reduced understanding of the three parameters included in ESG. The three parameters are not usually associated with the same epistemology, especially a significant difference between the E and the S, as the environment is typically related to quantitative values and is therefore closely related to the epistemology of finance. This similarity makes it easier to translate environmental impact to something applicable to measure risk as long as there is an agreed-upon guideline for the different aspects of environmental impact, which there do not seem to be at the moment. It is complicated to do this exact translation when it comes to social impact because it is based on qualitative methods and takes subjectivity more into account, and tries to include the subjective value of an action. The difference is significant as the social value tries to capture cultural and historical aspects relative to the situation. At the same time, environmental values exclude the social context and are only concerned with confronting immediate environmental problems.

5.2 Win-Win Discourse

As touched upon in the analysis, most of the respondents believe that there is no trade-off between financial return and sustainability return when making sustainable or socially responsible investments. Some of them made it very clear that sustainable investments are very competitive, and some even outperform non-sustainable investments. At the same time, they argue to have a responsibility to promote sustainability and social responsibility because they have the means to make a real impact with the vast amount of money they invest. They believe sustainable investments make a competitive financial return, and they argue that they have a shared responsibility to secure competitive financial returns and help promote a positive sustainability impact. It would seem straightforward that the financial sector focuses a significant amount of their resources on sustainability and maybe even make it their primary focus as a way to live up to this responsibility alongside securing competitive financial returns. The argument that the Danish Financial Supervisory Authority requires from the financial sector that they guarantee a competitive financial return is then not a hindrance to making socially responsible investments.

From the interviews, it seems like they are making an effort to have sustainability play a more prominent role in their portfolios and set sustainability criteria on all of their portfolios, not just the ones specifically focused on sustainability. However, this win-win discourse can be flawed, as King and Pucker (2021) present several win-win strategies that failed. Some even turned out to be lose-lose strategies, as they ended up being a bad strategy for the business and did not have the expected impact. It is typically a result of making the win-win strategies based on theories that have no empirical evidence for being effective (King & Pucker, 2021). When used in practice, they are believed to be accurate but without actual effect. This tending naïve belief in win-win strategies can thus be damaging for both the business and sustainability. It can prove to be without effect or even result in the companies acting in good faith but are doing more damage than before (King & Pucker, 2021). This would result from a lack of understanding of sustainability which could be argued as the case in sustainable finance. At the same time, analyses of well-designed energy efficiency programmes indicate that the programme costs more than the benefit it generates, proving that sustainability comes at a cost and is not just beneficial from the get-go (King & Pucker, 2021). This means that when sustainable investments are considered win-win investments, it can be questioned whether the complete understanding of the sustainability impact has been accounted for. It could seem like even small positive contributions to sustainability would qualify as a sustainable investment. This would imply that the companies they invest in only have to make minor contributions to environmental or social factors, limiting the cost of sustainability and having a better chance of being profitable.

The interviews indicate that there is a tendency that this win-win situation of sustainability and financial returns going hand in hand is a result of limited requirements to what qualifies as sustainable. For instance, when having "(…), a portfolio that contributes overall to the UN's Sustainable Development Goals" (Appendix B, BankInvest, our translation) becomes sufficient; it underlines how broad the perception of sustainability is in the financial sector. This statement indicates that as long as the portfolio overall contributes to the SDG's, it is considered sustainable. This means that every single company in this portfolio does not have to contribute to several SDG's as long as some other companies cover the rest.

The SDG's are related to sustainability and social responsibility, but they do not contain any parameters that can justify using them as a means to measure sustainability performance. They are way too broad; hence almost every company in the world can justify a claim to contribute to at least one of the SDG's or one of the sub-targets. Setting the benchmark this low gives the financial agent a lot of freedom to make profitable investments while still claiming to be socially responsible. This freedom and lack of guidelines to what is sustainable can be a challenge to the concept of sustainable finance. It does not constitute a standard for what can be expected when a financial institution claims to have socially responsible investments.

Using the SDG's as a parameter of success in sustainable finance can further be seen as name-dropping a well-known and popular phenomenon within sustainability. It would have to be explained how a company should contribute to the SDG's for it to be close to a valid parameter for sustainability. It may well be that some companies in the Danish financial sector are operating with some clearly defined measurements related to the SDG's. However, it was not elaborated in the interviews conducted for this master's thesis. They expressed intentions of being involved with the best, which indicates that there must be higher standards than positively contributing to the SDG's; otherwise, it will be very hard to find the best. Development goal number eight is a great example to explain why contributing positively to the SDG's is too inclusive and not a valid parameter to evaluate sustainability. The goal here is to "Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all" (Goal 8 | Department of Economic and Social Affairs, 2021).

Moreover, one of the targets is "Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors" (Goal 8 | Department of Economic and Social Affairs, 2021). The vast majority of companies registered on a stock exchange will qualify as sustainable if they only have to contribute positively to one of the SDG's as goal number eight is a condition of survival for a company competing on market conditions. Furthermore, if a company does not sustain economic growth, it will not be interesting from an investment point of view. It would not bring the financial returns needed for the financial agent to live up to the primary responsibility of securing as high a financial return as possible. If more than one SDG is required, it narrows the field slightly, but this was not clear from the interview.

5.3 Win-Win with Financial Epistemology

Even if the premise of contributing positively to the SDG's are accepted as enough to qualify as a socially responsible investment, it is challenging to determine to what degree the company contributes and how much they contribute. This comes down to how you can claim something sustainable or socially responsible while using two very different epistemologies. As outlined previously, finance has a natural sciences based epistemology that uses positivism as the primary methodology in reaching knowledge; this implies that finance, just as natural science perceives the world as made of stable and tangible entities external to the observer (Lagoarde-Segot, 2015). A positivist methodology then seeks objectivity and makes general rules that the financial institutions can measure and make predictions based on, as some perceived event leads to other perceived events, due to the assumption that the world is made of stable and tangible entities external from the observer (Lagoarde-Segot, 2015). On the other hand, sustainability is a lot more context-dependent. The social aspect of sustainable finance is thus not measurable in the way finance works with their information. An action that should positively contribute to social issues does not correlate to one specific outcome as finance usually perceives events. This means that finance will have difficulties in capturing the value of social impact; because the same initiative by a company might have different impacts depending on when and where it is initiated.

Given the different epistemologies in finance and sustainability, the win-win argument can be challenged for not considering the relativity of social sciences. The win-win argument made by the respondents from the Danish financial sector is most likely not taking the different epistemologies into account because they are setting some benchmarks like Nordic norms, UN frameworks and ESG-providers ratings of companies. These benchmarks speak into the financial epistemology in the way that they allow the financial institution to measure social impact compared to these supposedly internationally recognised standards. The problem is that these benchmarks are better at determining which companies perform worse than the benchmark rather than indicate performance exceeding them, which could indicate a compliance approach to the win-win argument. However, this compliance approach is not what the respondents seem to speak about when they say financial and sustainability returns go hand in hand; they argue that there is a positive correlation between the two. It means compliance with the benchmarks should not constitute a win-win situation for finance and sustainability; there should be some positive impact on sustainability alongside financial returns. It could be argued that for the win-win postulate to be valid, there has to be some indication of the actual social impact to make sure that it is exceeding the minimum requirement set by the benchmarks.

It is slightly different regarding environmental impact. It is based on an epistemology similar to finance, which means the quantitative approach is better suited to determine the company's positive or negative impact, hence determining if it is a win-win investment. Companies' environmental impact is determined by aspects such as CO2 emissions, how much plastic they are using and their water usage, which is all something that can be measured. It is accordingly also easy to measure improvements and even compare companies in the same sector, which makes it easier to judge whether an investment contributes significantly to improving the environment and can be claimed to be a win-win investment. This might also be why Climate Action 100+ was promoted as an excellent example of the effect of active ownership; since it is centred on improving the environmental impact of the companies with the worst environmental impact. It is easy to see the changes, and it is easy for the companies to set targets for how much they want to improve regarding environmental impact.

It could also be considered problematic that sustainable finance concepts such as ESG combine environmental and social aspects since they are epistemologically different, which means the methods for understanding the impact of each of them are different and will result in different kinds of values. They are usually considered equally crucial in sustainable finance, as they are put in the same category and count towards a common measurement of sustainability. It makes it difficult to understand the actual impact since it is two different perceptions of value, one measurable and quantitative and the other context-dependent, non-measurable and qualitative. This difference means that when combining the two, there will most likely be a compromise in the understanding of them since one seeks objective measurement of environmental impact and the other seeks to understand the subjectivity of the impact of a social action. This means that supposed win-win investments should either be a sustainability win for one of, environment and social, or it should be further specified how it is an investment that contributes positively to each of them. Because they cannot be measured as one without missing out on essential knowledge in one or both of them. This is the dangerous conceptual reduction that Lagoarde-Segot and Paranque (2018) explained as a consequence of financialization. The conceptual reduction is especially prevalent when finance interprets social activities, which means the social aspect will be most influenced by financialization.

Concerning the win-win situation in sustainable finance, the conceptual reduction of sustainability means that the financial sector cannot be sure of the actual sustainability impact an investment has; because the complete concept is not understood. Suppose the financial organisation invest in a company that should be socially responsible according to, for instance, their ESG-rating. In that case, the social responsibility is determined by analysts who convert the social responsibility to financial terms and could be a victim of the conceptual reduction of the social value in the process.

From the interviews, it seems like the additional tools the Danish financial sector uses are used primarily towards the companies that are on the limit to be good enough to be considered a sustainable investment. This implies that it is primarily those companies that are analysed further, with other methods than ESG-ratings and not as much the ones with good ESG-ratings. For instance, is the ESG-overlay explained as further analysis of the companies performing poorly with ESG; hence the top performers are more likely to be accepted as sustainable. However, when the Danish financial sector is only using ESG-overlays on the companies performing poorly with sustainability, there is a risk that they do not detect issues related to the companies with a good ESG-rating. Because the rating is a combination of social and environmental aspects, one of them could possibly compensate for the other being worse than the overall ESG-rating indicates. This means that there could be investments that are considered win-win but have a less positive sustainability impact than expected due to the ESG-rating combining values that originate from different epistemologies. This issue will be further elaborated on in the following section.

5.4 From Accumulation of Money Accumulation of Value

The problem related to using financial epistemology when determining the social impact of an investment is that you do not capture the value of the social impact. Finance focuses on monetary value and measurable values that can help estimate future monetary values through, for instance, risk assessments. The financialization of sustainability leads to using financial epistemology in gaining knowledge about sustainability, which means that the value of social actions is forced into something measurable that should align with monetary value and constitute an objectively, stable and tangible value. When doing so, the social actions have to be measured towards something, which in this case seems to be the benchmarks presented above. The risk of allowing this financialization is a conceptual reduction of sustainability because financial theory fails to consider the social structures and social relations within social responsibility. These are also referred to as the hidden dimensions, which finance, due to its epistemology, tend to exclude because financial knowledge and discourse are based on empirical observations overlooking the intentionality and social structures (Lagoarde-Segot & Paranque, 2018). The social value is usually present in these hidden dimensions; hence, it is usually not considered in the value assessment of an investment that only accounts for the monetary value.

In order to include a more nuanced interpretation of sustainability in finance, the whole sector would have to accept that they are moving from the accumulation of money to the accumulation of value. As discussed before, it is unlikely that investments will be a win-win for both finance and sustainability the way the financial sector perceives value and determines sustainability impact. Positive sustainability impact would most likely come at a cost in financial performance. Given that the financial value is a prerequisite for the existence of the financial sector, the changed perception of value accumulation would have to take this into account and still prioritise financial returns higher than that of sustainability. Thus, the changed perception is required since the sustainability value is not fully captured by the way the financial sector perceives sustainability. A way to accommodate the lack of value capture in sustainability could be to separate social and environmental values from the financial value to measure them on their own terms of epistemology explicitly. This could possibly highlight the value of the environmental and social impact a company has.

This could be seen as a form of blended value as it comprises monetary, environmental and social values and should include all three in the valuation of a company, hence be included in the measurement of returns of an investment. This aligns with Lagoarde-Segot's (2019) notion that for finance to understand sustainability better, it needs to adopt an open-system ontology where outside influences cannot be anticipated. This open-system ontology implies that sustainability would not be seen as a means to estimate future returns, and it would be possible to overcome the conceptual reduction by "adopting an open-system where human agency is embedded in an organic social context" (Lagoarde-Segot, 2019: 8). Blended value in an open-system could then be a way to broaden the valuation of a company while considering the social context, by this avoids a conceptual reduction of sustainability.

It makes it challenging to work with sustainable finance that the values do not comply with each other, which is also the experience the respondents from the Danish financial sector expressed. As a result, they focus their resources in one direction rather than try to cover all of the sustainability aspects. This, to a degree, accommodates the value challenge, as they focus on one value besides the financial return instead of trying to maximise a common value that would be compromised by the difference between the areas of sustainability. Furthermore, it seems like they are already considering the financial value separately from sustainability impact, which implies that they perceive the values separately and are not trying to force a mixed value upon the companies as a way to maximise value.

A challenge related to the term blended value is that it implies that the actual values can not be measured but creates a cycle that strengthens the financial, social and environmental values combined. However, financial value has to be explicitly stated for the financial sector to be able to live up to the responsibility of generating returns. Therefore it could be argued that the three values would need to be separated and constitute individual valuations of a company for it to achieve this cycle that strengthens all of the three values. This could help make the values explicit and clarify, for instance, if an investment is a win-win. However, it would require a framework that can set guidelines for environmental and social values, as in constitute a common language for the analysis of environmental and social activities.

5.5 Taxonomy for Sustainable Activities as a Common Framework

An initiative that could accommodate this attempt to find an independent framework that could determine when an investment classifies as sustainable is the EU taxonomy for sustainable activities. The taxonomy's purpose is to set some guidelines and define when an activity is classified as sustainable within specific criteria. These guidelines will help the financial institutions with a framework for sustainability that can align the way they perceive sustainable finance. The taxonomy attempts to solve the complexity problem and the confusion about sustainability, which was also mentioned by several respondents from the Danish financial sector.

The taxonomy is seen as a game-changer among the respondents because this long-needed definition and framework for sustainability will help align the understanding of sustainability in the financial sector. It will help prevent greenwashing, and it will be easier for the investors to determine which companies are acting in accordance with a regionally recognised framework for sustainability. The taxonomy can furthermore help rank sustainable investments as it provides a framework that indicates how sustainable an investment is by attaching a sustainability percentage score. In that way, the investors can make portfolios that perform well with these percentage scores and better understand whether the investments are actually win-win or just win in financial returns and compliant in sustainability. Where compliant means checking the boxes, so it does not have a negative impact environmentally and socially. Despite this, the fundamental problem stays the same. The taxonomy is still at risk for not grasping the value of sustainability, which could lead to investments elsewhere than where the most significant sustainability impact is.

The problem is that the taxonomy is only concerned with environmental aspects and does not contain a framework or guidelines for social issues. This means that the financial sector will still have trouble determining how much impact a social investment has to have. In terms of epistemology, the environmental part of sustainable finance is the one with an epistemology most similar to finance, making it easier to find common ground between the two. This, at the same time, means that, when there is no framework for social aspects, the financial sector is left to make their own assessments of issues with an epistemology different from the financial epistemology they are most familiar with. This implies that the financial sector would have to make individual assessments of subjective impacts of social activities in the companies without guiding them that could verify their approach to it. The challenges the financial sector will face concerning determining social impact in investments could lead to an increased focus on environmental issues when investing at the cost of social issues since there now is a framework for environmental investments but not social. Overall, it seems like the taxonomy for sustainable activities is a move in the right direction. It also separates environmental and social investments, which means their clash of epistemologies is avoided. A more nuanced perception of sustainable impact can be acquired.

5.6 The World as a Stakeholder

The way the respondents from the Danish financial sector express their responsibility is twofold. All of them emphasise the responsibility to secure financial returns to the customers or members, but at the same time, do they express a responsibility to be socially responsible and invest in sustainability. The customers and members are very tangible stakeholders to consider with a financial return, and for that matter, to focus social responsibility towards; then the respondents claimed society and the world as their stakeholder regarding sustainability and social responsibility. Interestingly, the whole world is seen as a stakeholder that they are responsible for. This is very intangible, and hard to determine what this sort of responsibility consist of. When you are responsible to someone or something, it usually implies that they can hold you up to your responsibility, and it has some consequence if you do not live up to the responsibility. In this case, there is no one to hold them accountable unless you perceive global warming as a consequence of not living up to their responsibility, but that is just as much as everyone else that is to blame for that.

In general, the responsibility to promote sustainability and influence the large companies in a more sustainability-oriented direction has been placed at the financial institutions because of their ownership of these companies through their shares and because they have the means, as several respondents explained. This makes sense in the way that the financial institutions distribute such vast amounts of money that they can make a more significant difference. Nevertheless, this impact they can have will be reflected by how they perceive sustainability and the way they work with it. This has been presented earlier as a finance-dominated epistemology that tends to have a conceptual reduction of sustainability. Social and environmental impact cannot be presented or understood as one value according to their respective epistemologies. It can be questioned to what degree a financial institution can live up to a responsibility that lies beyond their usual field. As addressed earlier, the primary tool to make their influence count is to use active ownership towards their companies. In order to do this in a way that contributes to helping the world as a stakeholder, it is essential to understand the challenges you are helping to solve; hence epistemological differences between finance and sustainability once again becomes an issue.

A conceptual reduction of sustainability could be argued to limit the possibility of influencing the world where it is most urgent. Furthermore, it can arguably lead to conflicts between responsibilities when a company has to secure a competitive financial return to customers and members, but at the same time have to take responsibility for the world. As explained in the Sustainable Finance as a Win-Win Situation section (4.5), there could be situations where sustainability comes at a cost for financial performance, and in that case, they have a legal obligation to prioritise the financial return. Therefore the responsibility to the world can be moved aside to live up to another more urgent responsibility. This illustrates how the responsibility in the Danish financial sector is ranked in the way that financial responsibility comes first and social responsibility has to be second and worked towards when it at the same time can generate competitive financial returns. When the world is a stakeholder, it is similarly vague as having the SDG as criteria for sustainability. Every investment will somehow contribute positively to some social or environmental aspect in the world. At the same time, it will also have a negative impact, which means they have to balance the positive and negative impact after they secure a competitive financial return.

5.7 How the Danish Financial Sector Differs from Lagoarde-Segot´s view of Sustainable Finance

Even though Lagoarde-Segot criticises academic finance for not fully understanding sustainability and the financial sector, through the assumption, the financial sector adopts the findings from academic finance within a few years (Lagoarde-Segot & Paranque, 2018). It is evident from the interviews that the Danish financial sector is closer to understanding the importance of explicit sustainability analyses actually to make a difference through their investments. First of all, the Danish financial sector emphasises that the ESG-providers have sector-specific analyses to diversify the ratings based on what a specific sector is most susceptible to. This is a way to target the most relevant aspects of a company's sustainability risk by isolating it from other sustainability factors. Hence it could indicate that they have addressed the same challenge of mixing sustainability values as presented previously. Despite this, it does not constitute a complete isolation of sustainability parameters as all of them will influence the overall ESG-rating, which means there is still not a clear distinction between the sustainability parameters, which possibly can be a limitation to the use of ESG-ratings, even though they are targeted specific areas.

Furthermore, most of the Danish financial sector makes additional analyses of the companies they consider investing in; either through ESG-overlays, information gathered through dialogues or generally looking further into the data behind the ESG-ratings. This allows them to gain more information on the company's sustainability profile and make better-educated investment decisions. When a company is involved in some environmental or social scandal, the financial institutions dig into what happened and the consequences of determining what to do from then on. This can be seen as a way to determine the impact and the extent of the crisis, to better understand the actual sustainability value lost and make a decision on how they want to make their influence count; if the financial institution should pull out of the investment or make changes through active ownership.

On the other hand, this thorough investigation can express a pure calculation of how much the incident will hurt the company's financial performance and value. As a result, the interpretation of the sustainability incident will still be converted to a measurement that is determining financial performance and risk. Then the epistemic problem in finance is still prevalent, where the empirical observation perceived is equal to what is (Lagoarde-Segot, 2019). Following this argument, it can be argued that sustainability is just reduced to a means to secure financial returns. Nevertheless, given that all of the respondents acknowledge a responsibility to promote sustainability, it seems unlikely that they take a solely financial perspective on sustainability.

The scepticism towards the ESG-providers and the data they base their ratings on illustrates an awareness of the limitations of this way of looking at sustainability. It was not clear from the interviews exactly what these further analyses of the companies consist of; hence the methodology cannot be commented on, but since it still intends to make risk assessments, there must be some quantitative measures involved since the outcome of the analyses have to fit into the high statistics influenced methods in risk assessments. If, on the other hand, the additional analyses are made to have the highest possible sustainability impact, without looking at risk or any other financial aspect of an investment, then the sustainability value might be sincere in the way that there is a separate sustainability analysis that does not attempt to quantify the results. Such analyses seem to fit into what the respondents classify as impact investments. As only two companies claim to have impact investments, it does not seem to be common in the Danish financial sector to make these kinds of additional sustainability analyses.

6 Conclusion

This master's thesis sought to investigate the Danish financial sector and how they have incorporated sustainability in their financial practices, specifically with the possible epistemological tension between finance and sustainability in mind. The focus has been on understanding how the epistemologies in finance and sustainability complement or conflict and how the Danish financial sector takes sustainability into consideration in their financial activities. Furthermore, to understand how the Danish financial sector perceives responsibility in finance and what role sustainability plays in this regard. Finally, this master's thesis has explored some of the complexities in sustainable finance and looked into how the upcoming EU taxonomy for sustainable activities possibly can help resolve these complexities.

In order to answer the research question, this master's thesis conducted semi-structured interviews with six representatives from the Danish financial sector, who were all part of their respective companies' sustainable investment department. These interviews were analysed in relation to Lagoarde-Segot's interpretation of the epistemologies in finance and sustainable finance, along with the interpretation of different epistemologies within sustainability presented by Vildåsen et al. (2017). All of this has been with a social constructivist perception that knowledge is created through socially constructed processes.

To conclude, this master's thesis has found that the epistemologies in finance and sustainability differ to a degree that can influence the incorporation of sustainability in finance. This is due to epistemology in finance being primarily influenced by the approach from positivism, where knowledge is based on past experiences and where everything is based on cause and effect. This means finance can only make knowledge claims based on assumptions supported by empirical regularities leading to perceived events. In contrast, epistemology in sustainable finance is more focused on extra-financial parameters such as the social context and the culture surrounding an event. In short, finance is focused on quantitative measurement to generalise events. Sustainability is focused on qualitative analyses and looks at every single event independently and concerning the social context while simultaneously calls for actors to take a stance on sustainable issues.

This stance has been taken by the Danish financial sector when they use tools such as negative screening, ESG and active ownership, which to a varying degree takes sustainability epistemology into account. Their negative screening is, among others, based on norms and is tied to international conventions, usually from the UN, which is to some degree a reflection of consideration of social context.

While the danish sector has spent many resources on incorporating suitability in their activities, it can still be argued that they hold onto financial principles, which for example, can be seen with BankInvest's vague assessment of UN Sustainable Development Goals as a justification for investment is sustainable. ESG can be seen as a way to bridge the gap between sustainability and finance while still keeping the financial approach since ESG is used as another risk variable associated with an investment. However, ESG is unable to catch more qualitative parameters in sustainability, which can be seen by the respondents, where most of them explain that they have to do ESG-overlays to get a more nuanced picture of a firm.

The Danish financial sector perceives its responsibility as twofold. Their primary responsibility is to make a competitive financial return to their customers and members. At the same time, a requirement by the Danish Financial Supervisory Authority is that they make investments with a competitive financial return. The second responsibility is related to sustainability and is often presented as very important to the companies in the Danish financial sector. Here they see themselves as a crucial actor to change the world in a better direction since their large amount of capital makes them able to have a voice to their invested firms, especially when they collaborate with other investors. The Danish financial sector perceives active ownership as more impactful than negative screening when promoting positive sustainability impact according to their sustainability responsibility.

However, the Danish financial sector sees no problem combining their responsibilities within sustainability and finance since they believe that they both go *hand in hand*. Thus, financial and sustainability returns can be achieved simultaneously, as sustainable investments should generate competitive financial returns. While this research cannot fully conclude whether or not sustainability always compliments returns, it can be questioned if the financial sector, given their epistemological background, can fully grasp the nuances in sustainability. Hence the nuances in the sustainability impact their investments have. Therefore it is not clear that sustainability and finance is a win-win investment.

This master's thesis argues that there is complexity connected to sustainable finance, first of all, because there is no common definition of sustainability, and the actors in the financial sector each have their own understanding of sustainability. This lack of common definition is most significant in impact investment where the respondents had very different definitions of it, which led to different interpretations if they used impact investments. The complexity in sustainable finance is emphasised by the different epistemologies between finance and sustainability but is made even more complex since there are different epistemologies within sustainability. Sustainability includes both social and environmental elements which are based on different epistemologies, which means they should be treated differently when gaining knowledge about them.

The social element has to be approached with the social context in mind, such as cultural, historical and societal elements, and an action cannot be measured numerically, and the same action can have a different social impact depending on the time and space of the action. On the other hand, environmental aspects should be analysed according to natural sciences, which leads to a numerical valuation of environmental impact, for instance, for CO2 emission. There is no framework for combining these two different values or applying them to finance, which can be problematic. The upcoming EU taxonomy for sustainable activities could constitute such a framework and could possibly help align how the financial sector works with sustainability and help incorporate sustainability in finance; however it does not take social aspects into account.

Finally, the Danish financial sector has incorporated sustainability in their financial practices by using tools such as negative screening, ESG-ratings and active ownership. However, their use might be restricted by epistemological differences between sustainability and finance and within sustainability between environmental and social aspects. Finance and sustainability are perceived to be mutually benefitting from sustainable finance. However, there could be a need for a common framework that allows the financial sector to work with sustainability values independent of each other. A common framework could be an evolved EU taxonomy with all aspects of sustainability.

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