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Greening of the financial system and fuelling a sustainability transition A discursive approach to assess landscape pressures on the Italian financial system

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ABSTRACT

By examining the use of language and depicting the emerging storylines surrounding the green finance (GF) niche, this study aims to identify actors pushing the Italian financial sector to become increasingly greener. Then, it scrutinizes the narratives used by landscape actors to assess the channels through which such pressure is exerted, as well as its effectiveness. Our findings reveal a high/unbalanced narrative pressure coming from global actors by means of both institutional and informal channels, and from national actors mainly by means of informal channels. If no apposite policy interventions are undertaken, such inadequacy could jeopardize the development of green innovations. More specifically, this study could support decision makers in developing specific strategies to unlock the huge potential of GF in the transition process towards a greener economy by: (i) supporting a deeper strategic collaboration among informal and institutional actors operating at the national level; (ii) acting as catalysts of green-oriented financial initiatives and related dissemination, and (iii) re-addressing the national-institutional actors towards a more proactive role in fostering finance for green innovation.

1. Introduction

In recent years, intermediaries and financial markets are increasingly paying attention towards investments flowing into green projects, thus contributing to the fostering of the development of a more environmentally sustainable economy. This new trend is rooted in ethical investing and socially responsible investing movements. On the one hand, banks are developing new financial products and services aimed at providing green enterprises with easier access to capital (e.g. preferential banking packages, lower interest rates, environmental rating and due diligence checks, environmentally related counselling, purchase and subsequent lease of environmental products). On the other hand, the number of business angels (BAs) and venture capitalists (VCs) that consider the capacity of green projects as adding value to companies, in addition to the risk reduction factor, is gradually increasing in the financial markets (EIM and Oxford Research, 2011). Such 'green BAs' and 'green VCs' are playing a significant role in funding radical green innovation in their early stage or expansion, also allowing the generation of a 'double dividend' by providing low environmental impacts together with financial returns (Courvisanos, 2008). Additionally, environmental concerns are becoming a supplementary and significant (non-financial) criterion through which private investors take their investment decisions (Knörzer, 2001). Companies are increasingly screened according to eco-efficiency criteria, which are perceived as proxies for superior profitability (Derwall et al., 2004). The basic idea is that eco-efficiency underlines the existence of the strategic and operational ability of a company's management to identify and take advantage of upside opportunities contributing to shareholder value and competitiveness in the medium and long term (KPMG, 2012).

In this framework, the research question of this paper (RQ) aims at *investigating and identifying those actors pushing the system to become increasingly greener (i.e. the various sources of pressure), as well as the channels through which such actors exert their pressure on the financial system.*

The outcome of such pressure would eventually be shaping policy processes and influencing decision makers to better commit themselves towards greening of the financial system. We conduct this analysis to establish an analytical framework, and to understand processes through which discourses concerning different ideas, interests and knowledge about green finance (GF) could influence decision makers. The present

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study aims to tackle the above-mentioned tasks by analysing the case of the Italian financial system, a sector of the Italian economy that has recently undergone multiple scandals and crises, becoming the subject of considerable debate and criticisms.[1] To this end, we integrate the multilevel perspective (MLP) approach with the discourse theory in order to explore the role of agency and political contestation (Rosenbloom et al., 2016) within the process of a sustainability transition of the financial sector. This is a novel way of approaching transition in the financial sector as, to the best of our knowledge, there is currently only one study addressing the on-going changes occurring in the financial sector in a similar way.[2]

The proposed methodological approach is three-fold. Firstly, by means of a stakeholder analysis, we identify all the potential actors that are directly or indirectly involved in the process of the financial sustainability transition in Italy. Secondly, by means of a discourse analysis, we examine the use of language within the sustainability debates in the Italian financial system, streamlining the key emerging storylines struggling against the dominant financial system. Finally, we perform a *sources of pressure assessment* aimed at conceptualizing these struggles in terms of multi-dimensional discursive interactions and their role in the transition towards a sustainable economy.

The remainder of the paper is as follows: Section 2 analyses the theoretical framework; Section 3 deals with the case-study by describing the context of the analysis and the methods used to answer our research questions; Section 4 reports the results; finally, Section 5 provides a policy assessment and concluding remarks.

2. Theoretical framework

2.1. Technical change, innovation trajectories and the multi-level perspective

In the wake of neo-Schumpeterian theory, we shall consider the emergence of a new environmentally sustainable trajectory of development as the outcome of the joint evolution of two interrelated subsystems: the techno-economic and the socio-institutional (Perez, 2010).

Any new innovation trajectory inevitably faces an unfavourable and often hostile environment. In fact, as observed by Dosi, a dominant technological paradigm is characterized by a powerful *exclusion effect*, as it focuses in rather precise technological direction and being, so to speak, *blind* with respect to other technological possibilities (Dosi, 1982: 153). Moreover, shifting to a new trajectory involves the abandonment of the accepted trajectories and practices – i.e. the *normal* problem solving activities determined by the technological paradigm (Dosi, 1982: 154) – and the introduction of a novel (and often uncertain) way of doing things.

Together with uncertainty, a new trajectory brings a set of new products, industries and infrastructures to the system that threaten the existing ones in several possible ways. In this regard, the emergence of a new trajectory involves Schumpeterian *creative destruction*, therefore provoking ferocious resistance from both those that are really set for losing and those that have not yet discovered they might benefit from it (Perez, 2004).

Bearing this in mind, a radical and path-breaking innovation trajectory requires multiple conditions to be satisfied at the same time in order to have the strength to overcome the many barriers and resistance coming from the incumbent system. As it seems, technological change is just one part of the story, as societal and institutional mutations need to occur simultaneously, and all such changes have to point in the same direction (Morone, 2016).

In this regard, we shall refer to socio-technical transitions, which differ from technological transitions in that they include changes in user practices and institutional (e.g. regulatory and cultural) structures, in addition to the technological dimension.

Against this background, the issue of promoting and governing a socio-technical transition has received increasing attention from analysts, policymakers and researchers (OECD, 2011; UNEP, 2011; Frantzeskaki and Loorbach, 2010; Grin et al., 2010; Smith et al., 2005). By acknowledging the inherent complexity of radical innovation dynamics, policy-oriented research attempts to address problems arising at the innovation system level; this might negatively affect the speed and direction of the socio-technical transition processes. This is done to provide relevant insights for the development of an integrated framework, suggesting that strong interrelations and complementarities exist between technological and market forces and different policy instruments (Crespi and Quatraro, 2013).

Stemming from the acknowledged systemic complexity, a relatively new strand of literature emerged at the turn of the century, proposing a multi-level perspective (MLP) on socio-technical transitions (Geels, 2002, 2007; Smith et al., 2010). The MLP considers socio-technical transitions in terms of interactions among three interconnected levels: (1) the socio-technical landscape (the macro level unit of analysis), (2) the socio-technical regime (the mesolevel unit of analysis), and (3) the niche-innovations (the microlevel unit of analysis).[3] Within this framework, socio-technical transitions can be viewed as the outcome of the dynamic interaction of these three levels. In particular, MLP depicts such dynamic as: (i) the culmination of pressures coming from landscape, (ii) tribulations within the dominant regime, and (iii) the readiness of niche innovations to exploit possible windows of opportunity and replace incumbent configurations (Van Bree et al., 2010). Essentially, as already emphasized by Lopolito et al. (2011), a regime shift (i.e. transition towards a sustainable regime) arises whenever a niche-innovation has sufficiently developed, coupled with adequate pressures coming from the landscape level. Geels (2011) pointed out how niche readiness might concern the niche technological development as well as the 'building of legitimacy' from more powerful actors (i.e. by gaining acceptance first, and then support and resources). Therefore, investigating the actors' dynamics in building legitimacy might play a key role in understanding the socio-technical transition pathway.

In what follows we shall concentrate precisely on this issue, looking closely at the emerging GF niche in Italy and the associated legitimacy building process. However, before stepping into the case study analysis we shall briefly discuss how the GF movement has emerged over the last decades as part of a broader movement rooted on ethical and socially responsible finance.

2.2. Sustainable and responsible finance: greening the financial system

Ethical investing is well rooted in the ancient tradition of the three monotheistic religions: Judaism has a wealth of teachings on how to use money ethically; medieval Christians followed ethical precepts on loans and investments that were based on the Old Testament; Islamic financiers avoid investing in companies involved in pork production, pornography, gambling, and in interest-based financial institutions (Renneboog et al., 2008).

A recent development of ethical investing is socially responsible investing (SRI), a movement detached from religious principles and anchored to the varying personal, ethical and social convictions of

[1] Some striking examples are: the scandal over loss-making derivatives contracts and alleged fraud at Monte dei Paschi di Siena (MPS) – the world's oldest bank, and the four local banks (Cassa di Risparmio di Ferrara, Banca delle Marche, CariChieti and Banca Etruria) who got into trouble at the beginning of 2016 as they were selling inappropriate, high-risk products such as subordinated bank bonds to their regular "high street" clients.

[2] We refer to the study of Seyfang and Gilbert-Squires (2016) who investigated the sustainable transitions in the UK retail banking system using a mixed-method, combining the multi-level perspective (MLP) framework with the social practice theory (SPT).

[3] For a broad explanation of the model see Rip and Kemp (1998), Geels (2002), Berkhout et al. (2004).