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Guest Editorial: Sustainable and Socially Responsible Finance – University of Bologna, Forli Campus - 2022

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The global financial landscape is undergoing a profound transformation as sustainability becomes a core aspect of economic decision-making. Sustainable finance, which integrates environmental, social, and governance (ESG) criteria into financial services, has moved from a niche concern to a mainstream imperative. This special issue of Finance Research Letters on Sustainable Finance gathers diverse research underscoring the critical role of finance and social business in achieving sustainable development goals. The issue features five research papers offering novel perspectives, innovative methodologies, and practical insights for scholars and practitioners in this dynamic field.

The first paper, coauthored by Antonella Francesca Cicchiello, Matteo Cotugno, and Cristian Foroni, is “Does competition affect ESG controversies? Evidence from the banking industry". This study focuses on the intersection of market competition and ESG controversies within the banking sector. In the wake of increasing societal and regulatory focus on sustainability and ethical behavior, understanding how competition affects banks' ESG performance is highly relevant. Banks are under scrutiny not only for their financial performance but also for their impact on society and the environment. ESG controversies can severely damage a bank's reputation and financial stability. This study highlights the role of market competition in driving banks to avoid such controversies, which is crucial for maintaining public trust and investor confidence. The study uses data from European banks spanning from 2010 to 2020. ESG scores were obtained from

Thomson Reuters’ Eikon ESG Asset4, and accounting information was sourced from Bank Focus (Bureau Van Dijk). A logit panel regression analysis examined the relationship between market competition and ESG controversies. The study also performed robustness checks using alternative competition measures and additional control variables. The logit regression results indicated that higher competition (lower Lerner index) reduces the probability of banks engaging in ESG controversies. Specifically, a one-standard-deviation increase in the Lerner index is associated with a 4.99 percentage point increase in the likelihood of having an ESG controversy. The study also examined the relationship between market competition and reputational risk using the RepRisk Index (RRI). Results showed that higher competition decreases banks' exposure to reputational risks related to ESG issues. The findings provide valuable insights for regulators and policymakers. By demonstrating that competition can act as a disciplinary mechanism, the study suggests that fostering a competitive environment could enhance ethical practices in the banking sector. This is particularly important for designing effective regulatory frameworks that balance competition with sustainability goals. Promoting competition to achieve ethical banking practices aligns with broader societal goals of sustainability and corporate responsibility. This research supports the idea that competitive markets can produce positive social outcomes.

The second study, “The stock price of European insurance companies: What is the role of ESG factors?" coauthored by Caterina Di Tommaso and Maria Mazzuca, investigates the impact of ESG ratings on the stock prices of European insurance companies. It analyzes stock market reactions to ESG rating upgrades and downgrades. The results indicate that ESG ratings significantly affect stock prices, with upgrades leading to stock price increases and downgrades leading to decreases. The market response is particularly notable during the Pre-Paris Agreement period. The findings emphasize the importance of ESG factors in investment decisions and highlight the need for sustainable business practices in the insurance sector. ESG ratings for European insurance companies were sourced from Refinitiv ESG Europe from 2011 to 2021, whereas stock prices were retrieved from Refinitiv Eikon. To measure the stock market’s reaction to ESG rating upgrade or downgrade announcements, the study used an event study methodology where the ESG rating upgrade or downgrade announcement was defined as the "event." Several event windows were used to capture the reaction over different periods and aggregate daily abnormal returns over the

event windows to estimate the overall impact. The market reaction is stronger for downgrades than for upgrades. This asymmetric response indicates that investors might place more weight on negative news or perceive downgrades as more significant indicators of potential risks. By demonstrating the financial benefits of high ESG ratings, the study incentivizes insurance companies to adopt sustainable and socially responsible practices. This can lead to better environmental stewardship, improved social equity, and more transparent governance structures. The study provides valuable insights for investors who prioritize sustainability. Understanding the impact of ESG ratings on stock prices helps investors make informed decisions that align with their ethical values and financial goals. Finally, the findings underscore the importance of regulatory frameworks like the Paris Agreement in driving market behavior. Policymakers can use this information to craft regulations promoting ESG considerations in the financial sector.

The third paper, "Quality of institutions and employment dynamics of social enterprises: Evidence from Italian regions", is coauthored by Francesco Savoia, Federica Bandini, Daniela Bolzani, and Eleonora Grassi. The study starts from a different standpoint related to sustainability since it focuses on the impact of regional institutional quality on the employment growth of social enterprises in Italian regions. Social enterprises are crucial for addressing societal challenges and promoting economic and employment growth. Still, despite their importance, their development is imbalanced across the EU, highlighting the need for better institutional support. The study uses an original panel dataset of Italian social enterprises from 2011 to 2020, including social cooperatives, benefit corporations, and innovative start-ups with a social vocation. The authors gather information from several data sources, including the Aida database (Bureau Van Djik), the Italian Chambers of Commerce, Eurostat, and regional measures of institutional quality from Charron et al. (2022). The baseline findings suggest that a higher regional institutional quality (measured by the European Quality of Government Index, EQI) is associated with increased employment levels in social enterprises. SMEs show the most significant positive response to higher institutional quality. In contrast, corruption in public service provision negatively impacts the employment growth speed of micro and SMEs, with SMEs being again largely more affected.

This study carries several important implications. It underscores the importance of high-quality institutions in promoting social enterprises' growth and employment dynamics. The findings

highlight significant regional disparities in Italy, suggesting a need for place-specific policies considering local institutional contexts. Tailored interventions can help address unique regional challenges and leverage local strengths. Enhancing resource access, reducing bureaucratic hurdles, and fostering a conducive environment for SMEs can drive inclusive economic growth. The study opens avenues for further research on how different dimensions of institutional quality (e.g., impartiality, quality of public services) specifically impact social enterprises. Future studies could explore these aspects in more detail and across different contexts. Conducting longitudinal studies to track the long-term impact of institutional changes on social enterprises can provide deeper insights into causal relationships and help refine policies and strategies.

The fourth paper of the special issue is "SFDR, Investor Attention, and European Financial Markets", coauthored by Giuliana Birindelli, Helen Chiappini, and Raja Nabeel-Ud-Din Jalal. It investigates whether investor attention to the Sustainable Finance Disclosure Regulation (SFDR) predicts movements in European financial markets during 2019–2022. The study employs the nonparametric causality-in-quantiles method, which allows causality analysis in different quantiles and is robust to misspecification errors. Investor attention is measured through the Google Search Volume Index (GSVI) from Google Trends for keywords related to SFDR. Financial market data comprise weekly closing prices of European financial sector stock market indexes (S&P Europe 350 Financials, MSCI Europe Financials, Euro STOXX Financials) and sub-indexes (Euro STOXX Banks, Euro STOXX Insurance). The results reveal that investor attention to SFDR predicts financial market prices, particularly in lower-middle quantiles, indicating sensitivity during bearish and normal market conditions. This study is important for several reasons. First, understanding the impact of investor attention on SFDR disclosure can promote broader acceptance and implementation of sustainable finance principles. Second, by demonstrating that investor attention to SFDR can predict financial market movements, the paper can increase market efficiency since investors and asset managers make more informed decisions based on sustainability disclosures. Third, for asset managers and investors, the study highlights the importance of monitoring investor attention to sustainability disclosures. This can impact portfolio rebalancing and investment strategies, aligning them with sustainability goals and market trends. Last, the study contributes to the nascent literature on the relationship between sustainable

finance regulations and financial markets. Introducing a new perspective on investor attention toward sustainability regulations expands the understanding of how these factors interact.

The last paper of the special issue is "A systematic literature review in social impact bonds", coauthored by Fatima Dahbi, Inmaculada Carrasco, and Barbara Petracci. The paper examines peer-reviewed articles on social impact bonds (SIBs) through a systematic literature review and mapping for content analysis of 116 research articles published from 2010 to 2022. SIBs represent innovative tools for impact investing to finance public benefit projects. They involve multiple stakeholders and aim to improve social outcomes in policy areas underserved by conventional public services. The paper addresses the evolution of the research stream, key contributors, most analyzed countries and policy areas, methodologies adopted, and future research avenues. The systematic literature review is conducted using the PRISMA framework. The bibliometric and content analysis has utilized Biblioshiny software and VOSviewer for mapping and visualization. The papers analyzed were retrieved from Web of Science (WoS) and Elsevier Scopus, published in English between 2010 and 2022. The bibliometric analysis documents accelerated publication trends during the last decade, peaking in 2020. In terms of the affiliation of authors, the USA and the UK are the leading countries, with Italy in third place. The UK is the most active SIB issuance market, followed by the USA, Portugal, and Japan. The proceeds finance a multitude of projects related to several domains, such as employment and training, child and family welfare, health, and education. The study also reveals that the analyzed studies use several approaches, where mixed methods are the most common, followed by qualitative studies. Quantitative studies are less frequent due to data challenges. The paper paves the way for several research avenues. There is a need to develop more quantitative studies and to compare successful and unsuccessful SIB case studies. More studies are necessary to explore the role of SIBs in addressing pandemic impacts and recovery funding or to analyze the investor's role in choosing the right project to be financed.

Sustainable finance is reshaping the financial world. This special issue examines its impact on banking, insurance, and social enterprises. It shows that competition can boost ethical banking practices, ESG performance significantly influences stock prices, regional factors are crucial for social enterprise growth, and investor attention to sustainability disclosures is increasing. Social

impact bonds emerge as promising tools for addressing social challenges. The research emphasizes the need for a more sustainable and responsible financial system.

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