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Chaire Desjardins en finance responsable

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SUSTAINABLE FINANCE: A MULTIDIMENSIONAL PERSPECTIVE (Introduction)

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Préambule

La gestion financière responsable vise la maximisation de la richesse relative au risque dans le respect du bien commun des diverses parties prenantes, actuelles et futures, tant de l'entreprise que de l'économie en général. Bien que ce concept ne soit pas en contradiction avec la définition de la théorie financière moderne, les applications qui en découlent exigent un comportement à la fois financièrement et socialement responsable. La gestion responsable des risques financiers, le cadre réglementaire et les mécanismes de saine gouvernance doivent pallier aux lacunes d'un système parfois trop permissif et naïf à l'égard des actions des intervenants de la libre entreprise.

Or, certaines pratiques de l'industrie de la finance et de dirigeants d'entreprises ont été sévèrement critiquées depuis le début des années 2000. De la bulle technologique (2000) jusqu'à la mise en lumière de crimes financiers [Enron (2001) et Worldcom (2002)], en passant par la mauvaise évaluation des titres toxiques lors de la crise des subprimes (2007), la fragilité du secteur financier américain (2008) et le lourd endettement de certains pays souverains, la dernière décennie a été marquée par plusieurs événements qui font ressortir plusieurs éléments inadéquats de la gestion financière. Une gestion de risque plus responsable, une meilleure compréhension des comportements des gestionnaires, des modèles d'évaluation plus performants et complets intégrant des critères extra-financiers, l'établissement d'un cadre réglementaire axé sur la pérennité du bien commun d'une société constituent autant de pistes de solution auxquels doivent s'intéresser tant les académiciens que les professionnels de l'industrie. C'est en mettant à contribution tant le savoir scientifique et pratique que nous pourrons faire passer la finance responsable d'un positionnement en périphérie de la finance fondamentale à une place plus centrale. Le développement des connaissances en finance responsable est au cœur de la mission et des intérêts de recherche de la Chaire Desjardins en finance responsable et des membres du Groupe de Recherche en Finance Appliquée (GReFA) de l'Université de Sherbrooke.

Ce cahier de recherche présente la vision de la finance responsable de Frank Coggins et Claudia Champagne, respectivement titulaire et chercheuse principale de la Chaire Desjardins en finance responsable, ainsi que de Lyne Latulippe, chercheuse principale de la Chaire en fiscalité et finance publique. Tant la finance traditionnelle que les pratiques de l'industrie de la finance se transforment. Ce cahier discute des raisons d'être et des perspectives d'avenir de la finance responsable. Ce texte est la traduction en anglais par les auteurs de l'introduction du collectif qui s'intitule « Éléments de la finance responsable : une perspective multidimensionnelle », publié en 2018 par la maison d'édition Thomson Reuters.

SUSTAINABLE FINANCE: A MULTIDIMENSIONAL PERSPECTIVE
(Introduction)

"Your net worth to the world is usually determined by what remains after your bad habits are subtracted from your good ones."

- Benjamin Franklin

Finance

Responsible management, in its broad sense, is a management approach that integrates environmental, social and governance (ESG) criteria. This type of management must be conducted at all hierarchical levels and for all the functions within the firm, including marketing, human resources, accounting and finance.

However, it is not uncommon to hear that the firm's objectives associated with the finance function are not compatible with these ESG criteria. The finance function is even associated with negative behaviors such as greed and lack of morality. In reality, finance is definitely compatible with extra-financial objectives or criteria. As an example, ethical considerations are necessarily taken into account in financial management practices. As noted by the ethicist John Boatright (2010): « *Despite the popular cynical view that there is no ethics in finance, a moment's reflection reveals that finance could not exist without it. Without an assurance of fairness and observance of basic rights and duties, no one would make exchanges in a market or place their assets with financial institutions »*.

Nevertheless, finance is not perceived as the most responsible administrative functions. This perception is not so surprising when we consider the central place of finance in our personal lives and in our society. Our individual personal finance decisions combined with collective decisions from economic and tax models directly influence our personal consumption choices, both current and future. Our choices in terms of our home, our hobbies or our vacations are all constrained by our liquidity, our investments and our capacity to obtain financing. With finance at the center of our lives and society, rationalizing and constraining our choices, it is no wonder that it's particularly conducive to criticism. This criticism seems even stronger in Quebec where money is a particularly sensitive subject. In fact, societies with a long historical Catholic tradition, such as Quebec, seem to have a complicated relationship with money and, through transposition, with the financial sector.[1] Wealth is often associated with undesirable behaviors such as greed or

[1] Although, to our knowledge, there is no scientific study on the subject, it is a rather widespread assertion in Quebec. For more information, see for example the document "Québec's Strategy in Financial Education; 2016 edition" from l'Autorité des Marchés Financiers, 2016 or listen to the documentary miniseries entitled" Les grands moyens "at Télé-Québec.

materialism. Specifically, finance is wrongly seen as a zero-sum game: if someone gets rich, it must be because others get poorer.

Given the role of finance in our society and our relationship with money, it is not surprising that finance is not generally perceived as a fundamentally socially responsible discipline. Yet, it is precisely this central place that finance occupies that makes it indispensable to our responsibilities as individuals, organizations and corporations.

But what about in theory? In practice?

Finance is not *irresponsible*…in theory

Finance is about analyzing, in financial terms, all the important decisions that occur in organizations or in our society in general, with the aim of ensuring the optimal allocation of resources. Finance is therefore not, by definition, inconsistent with responsible management. On the contrary, an optimal use of resources should theoretically lead to an improvement of the collective well-being.

Finance has so far favored an instrumental scientific approach, implying that the value of the discipline should be judged not by the degree to which theories explain a complex reality, but rather by the ability of these theories to predict economic behavior or explain the prices of assets on the market. Financial theory is therefore only an instrument and cannot be held responsible for the behavior of individuals.

For example, finance is often criticized for its value maximizing objective of the firm, which is the ultimate criterium for most corporate financial decisions. We associate this vision of the firm with negligence or disregard for other stakeholders such as employees or customers, which is not the case. In fact, the interaction between other stakeholders (other than shareholders) and the firm is done through implicit or explicit contracts. Moreover, from a financial point of view, the company is considered as a set of contracts, where each stakeholder negotiates according to its own interests. As a set of voluntary contractual relationships, its purpose is also to manage these relationships so that the best stakeholders (e.g. the best employees, the most efficient suppliers or the creditors willing to offer the best terms) will want to continue or otherwise improve these relationships. This implies, as mentioned by Hansmann and Krackman (2004), that the goal of maximizing the value of the firm should improve the aggregate well-being of so-called primary stakeholders, those directly associated with the firm's activities.

In the same vein, the objective of financial management is to identify and invest in projects that increase the value of the firm in general and, in many instances, increase shareholder value. However, this does not mean that the projects are not socially beneficial. On the contrary, the fact that firms undertake profitable investments in various projects contributes to the wealth of a society through paid wages or taxes and the various economic benefits offered to suppliers, customers, etc. As a matter of fact, this wealth creation is one of the major contributions of corporations to the collective well-being. In addition, an instrumental view of stakeholder theory suggests that a project that has positive social repercussions *should* be retained by corporate managers in order to improve the firm's reputation. A better reputation can potentially improve the company's sales, its employees' sense of belonging or customer loyalty while decreasing the likelihood of unfavorable rules and regulation. From a financial point of view, these benefits will be included in the project evaluation, which should then result in financial added value while contributing to the increase of collective wealth.

It is also often assumed that, in seeking to maximize shareholder value, the firm will generate both positive and negative externalities for society. For example, it is assumed that companies will prefer to pollute rather than to internalize the costs (or management) of their waste. The fact is that almost all agents in the economy face incentives to impose costs on others rather than internalizing them, and corporations are no exception. However, laws, regulatory standards, codes of ethics and social pressure partially restrict such irresponsible behaviors. Within this framework, maximizing the value of the firm is not incompatible with the interests of other stakeholders. Moreover, according to financial theory, a company that fails to maximize its value while optimizing its relationship with employees, customers or creditors, will be quickly replaced or acquired by another company that will. The ethical aspects of maximizing the value of equity can then be rationalized by ensuring an adequate response to the ethical sensitivity of other stakeholders. For example, Hansmann (1996) explains that the control of the company by the board of directors and shareholders minimizes agency costs and conflicts of interest and represents the optimal solution for all stakeholders. Ethicist Norman (2010) summarizes this thought: « *...this is another way of arguing that shareholder control is usually in the best interest of – and would be chosen by – other stakeholder groups* ».

Finally, there is a lot of criticism of finance, which is associated with the pursuit of profits or returns. However, one of the most fundamental principles in finance is the relationship between reward and risk. If we wish, as a society, that risky but socially beneficial investments, such as building infrastructure, starting a business or generating pharmaceutical research, materialize, then someone has to bear their risk. In finance, the support of a risk is considered as a service that must be offset by an adequate return. Of course, one of the fundamental questions in finance is to determine the appropriate price of risk, or the risk premium.

What about *applied* finance ?

Applied finance can be defined as the set of models, tools, and financial management practices that arise from the theoretical foundations of finance. Applied finance is thus developed by both academic researchers and industry professionals. While the previous discussion shows that finance is not, in theory, irresponsible, this does not mean that applied finance is entirely responsible either.

Indeed, we do observe irresponsible behavior, abuse and inequities. The Enron (2001) or Bernard Madoff (2008) frauds, the subprime crisis (2007), the Libor scandal (2012) or the Wells Fargo scandal (2017) are only a few examples that puts the financial sector at the front of economic, political and social debates. Given the number and magnitude of these events, there is likely inadequate management.

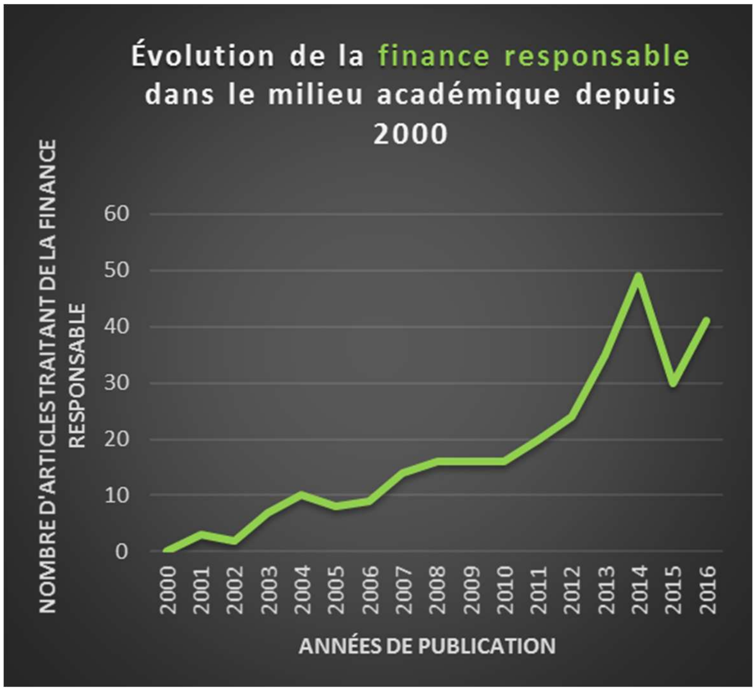
For example, the value maximizing objective discussed above is often associated with short-term performance goals that induce non-optimal behaviors over a long period of time, which can consequently undermine the environment, society and the common good. This short-term vision, however, does not come from financial theory, which, on the contrary, considers the value of equity as a perpetuity. This short-term view comes from individual interests and constraints that arise in practice, or from internal incentives such as variable employee compensation.

But, beyond the origin of irresponsible behavior - poor governance, individual greed or inadequate regulation - we must admit that there are certain financial practices that are not responsible. Whether or not we agree that social responsibility is included in financial theory, it is clear that the tools, models or concepts derived from this theory need to be enhanced in order to *explicitly* incorporate social or other non-traditionally financial criteria.

Nevertheless, the recent and too numerous financial scandals have challenged certain elements of finance, militating in favor of research and practices that can further and more specifically guide financial management towards its economic, environmental and social responsibilities.

What about academic and applied research?

In terms of scientific contributions, researchers or editors of finance journals seem to be relatively uninvolved in the various elements of responsible finance. The graph below shows the evolution of the number of articles on responsible/sustainable finance published in scientific journals since 2000. The graph shows that, despite a positive trend, the total number of published studies remains relatively low at 300 published articles in 149 scientific journals, over a period of 17 years.



However, it remains difficult to get a good picture of the development of knowledge in responsible finance, in particular because its numerous dimensions are not always uniformly worded or treated as such. For example, for many financial researchers, extra-financial criteria (such as environmental, social and governance factors) are already considered in the general analysis of financial risks and would therefore not require a separate literature. The extra-financial effects related to the social and environmental factors of financial decisions are also often linked to the reputation of the company and, as such, reputation risk is a topic that has been extensively examined in the literature for the last 30 years. Other topics related to responsible finance were also addressed without being directly associated with the theme. For example, in 1985, an article in the Journal of Finance, the highest-ranked scientific journal in finance (according to most rankings), criticized the tendency of managers to have a short term view.

Still, the scientific financial literature on responsible finance remains young and niche. The ethicist John Boatright (2011) has this reflection to explain the lack of studies on financial ethics specifically but that can surely also explain the lack of study in responsible finance in general: "*Although finance raises many ethical issues, the academic study of finance ethics has received surprisingly little attention from scholars in either finance or business ethics. The neglect by finance scholars is understandable given the research paradigm in the field, which not only excludes normative questions from study but also demands the use of particular analytical tools and methodologies. For most finance scholars, the task of addressing ethical issues is simply not what they are trained to do. Business ethicists, who have the training, often ignore finance ethics due to unfamiliarity with financial theory and practice*." (Chapter 1: Ethics in Finance, in Finance Ethics; critical issues in theory and practice, Wiley.).

For now, despite the growing interest for the subject, responsible or sustainable finance remains a broad and vague concept with a definition and scope that do not reach consensus. On the one hand, a positivist theoretical approach suggests that responsible financial management aims at maximizing wealth relative to risk while considering the expectations and interests of the various stakeholders, present and future, both of the firm and of society in general. On the other hand, a constructivist approach can conceive responsible financial management as a set of practices that lead to the creation of economic and social value through models, products and financial markets that are aligned with a sustainable and responsible perspective. Although the two approaches are not at odds with the definition of modern financial theory, their derived applications nevertheless explicitly require behavior that is both financially and socially responsible.

Like the academic community, the industry has also been slow to focus specifically on responsible finance, with discussions related to environmental or societal concerns left mostly to interested organizations. Although responsible investment is the most well-known and developed element of responsible finance, it has long been marginalized and supported only by more socially-focused financial institutions, such as credit unions, ethical funds or religious investment funds.

Unfortunately, as long as financiers are not specifically interested in responsible finance, it will remain a mere utopia. As a corollary, as long as financial tools and models do not adapt to the more explicit objectives of responsible finance, it will remain peripheral to financial decision processes. Even if no one, including financiers, is against the virtues of reducing pollution (perhaps with the exception of a few climate skeptics), a good portfolio manager must ensure that she offers an efficient and diversified portfolio to investors. In the same way, with regard to shareholders, a company executive will accept an investment project if it creates value, given the risk assumed. In both cases, the financial decision needs to integrate not only the economic contribution, but also the environmental and social externalities of the project, which remains a complex issue where avenues for research are numerous.

To our knowledge, the good news is that, in recent years, financial experts, both from the academia and the industry, are becoming more involved in the research and development of tools for responsible finance, and recent results are already significant. For example, responsible investment now accounts for over one-third of assets under management in Canada. This exponential growth is attributable in particular to institutional investors (pension funds, banks, etc.) who are increasingly incorporating extra-financial criteria into their portfolio management. These same institutional investors are also demanding more extra-financial information from corporations, which has helped to increase both the quantity and quality of disclosure of corporate social responsibility reports.

The "not so good" news is that the work to be done is colossal and the solutions are much more complex than might seem a priori. For example, corporations are criticized for wanting to maximize their financial value. How can ESG criteria be explicitly included within this framework? This question, which may seem simple on the surface, is rather complex. Nevertheless, it requires pursuing the reflection, development and integration of ESG measures and tools in such a way as to make the "responsible" adjective obsolete, since it will have already been explicitly incorporated into our practices and our financial decisions.

Elements of responsible finance : a multidimensional perspective

When we were asked to develop a multidisciplinary collection of texts in responsible finance, the challenge initially seemed too ambitious. How can we structure a multidisciplinary book in responsible finance when research in the primarily-concerned discipline, finance, has not even yet reach maturity? Upon further reflection, however, we came to the conclusion that the problem was, in fact, an opportunity. Why not take advantage of the fact that responsible finance is still "young" to contribute to its multidisciplinary development? Why not involve ethicists, sociologists, accountants, engineers, environmentalists, and other experts to forge a broader vision of responsible finance while providing avenues for research to develop concepts, models, and tools that can be used to reach this goal?

This collective work brings together many specialists to pursue (and, in some cases, initiate) various reflections and developments in the field of responsible finance. It is divided into five sections which represent, in our opinion, the main themes related to responsible finance.

Section 1 : Some elements of responsible investing

One of the most developed topic in responsible finance is responsible investing (or socially responsible investing). Responsible investing can be defined as an investment that takes into account social, environmental, ethical and governance criteria without neglecting financial performance and risk. While several general business theories discuss its costs and benefits, scientific (evidence-based) knowledge about responsible investing is still young and additional work is needed in order to develop an alternative theoretical and applied framework for this complex investment approach.

In chapter 1.1, Daniel Simard and Arnaud Celka take a look at the ten years of promoting responsible investment since the start of the *United Nations Principles for Responsible Investment* (UN PRI). The authors present the context behind the initiative, its development, its mode of operation, its successes, its major challenges and its development for the coming years.

In chapter 1.2, Rosalie Vendette discusses both responsible and impact investing. Specifically, over the last few years, a new way of approaching ESG issues has appeared through a design that aims at solving an environmental, social or governance issue while generating a financial return. In other words, these investments aim at generating positive effects that go beyond financial returns.

The impact of responsible investing on financial performance has been widely studied and most empirical studies conclude that there is no negative impact. In other words, portfolios or securities that are classified as more "responsible" perform, financially, at the same level as others, but also offer positive ESG benefits. In chapter 1.3, Amos Sodjahin presents a review of the literature on the relationship between responsible investment and financial risks, including accounting risk, market risk (specific and systematic) and corporate credit risk. At the theoretical level, the relationship between responsible investment and risk can be either positive or negative. At the empirical level, recent studies conclude that corporate responsible investments have a favorable impact by reducing risk.

Responsible investing can go beyond selecting (or excluding) securities in a portfolio and can include shareholder social activism. In Chapter 1.4, Bouchra M'Zali and Hajer Tebini describe the state of shareholder activism in Canada and internationally. The authors analyze the evolution of this engagement mechanism, the different types of actors that are involved as well as the different issues that are raised. A case study illustrates the major challenges facing shareholder engagement.

Finally, in chapter 1.5, Vincent Felteau presents the investment opportunities provided by green real estate. In Canada, we often talk about the natural resources or transportation sectors as the largest energy consumers and producers of greenhouse gases, while neglecting the environmental impact of the real estate sector. This text demonstrates its importance and discusses its main contributions and innovations.

Section 2 : Extra-financial risks in capital markets and the role of financial institutions

It would be unthinkable to publish a collective on responsible finance without discussing the responsibility of the financial sector. The financial sector is not like other sectors; through its financial intermediation activities, this sector is at the heart of the economic system and plays a central role in the efficient allocation of financial resources. The misuses and excesses that occur in the financial sector are therefore, in many respects, even more damaging than those that can occur in other industries.

The responsibility of the financial sector, which includes both financial institutions and markets, is based among other things on a concept of equity or fairness (see, in particular, Boatright, 2010) and considers the externalities that intermediation activities may have on various stakeholders. In a responsible financial sector, stakeholders must integrate social and environmental considerations into their financial decision-making.

In Chapter 2.1, Amr Addas, Milla Craig, and Stephanie Kibsey discuss a major and difficult challenge in business risk management, namely the managing of long-term emerging risks (LTEQR), including climate change and cyberattacks. Many of these risks are globally addressed by the World Economic Forum. In this respect, the investor's main challenge is to properly assess and allocate her portfolio's exposure to these types of risk. However, the risk management of LTEQR is closely linked to that of corporate ESG factors. The authors identify the different phases for the integration of ESG factors in responsible investment, and present their vision on the coming developments that should allow investors to apply risk management tools that are more extensive and efficient.

A fundamental ingredient that is necessary in order to explicitly incorporate extra-financial elements into financial decision-making is the availability and quality of complementary non-financial information. In chapter 2.3, Aurélie Desfleurs and Lionel Bahl discuss the notion of non-financial information and its role in responsible finance by differentiating it from traditional financial information and identifying the main challenges related to its use.

In chapter 2.4, Caroline Boivin and Jean-François Guertin present a review of the literature on green product marketing strategies. Specifically, the authors discuss the necessary redefinition of our view of the consumer's behavior towards green products as well as promising marketing practices. As part of a collective on responsible finance, it is interesting to draw a parallel between the interest for green products and that for responsible investment funds. As with green products, consumers / investors rely on many factors in their decision-making. Specifically, even if they have the environment at heart, a "green" criterion is not enough to develop a profitable niche market from the firm's point of view. Rather, it would be a favorable and financially profitable argument to stand out in a mass market.

Despite their bad press or bad reputation, derivatives and structured products are essential risk management tools. While they are often associated with speculation, they nevertheless play a major role in organizations' risk management strategies. In Chapter 2.5, Alain Bélanger and Christian Robert discuss recent innovations in financial derivatives, including the development of a Canadian market for longevity-risk-related securities. The improvement of people's quality of life will generate longevity risk, particularly for life insurance companies and pension funds, which must be properly managed. Better longevity risk management is beneficial for both taxpayers (who fund pension plans) and policyholders (who pay longevity premiums on their life insurance products).

Despite what some may believe[2], the social usefulness of banks and other financial institutions is clear: to act as financial intermediaries between suppliers (households) and users of capital in order to reduce transaction, diversification, liquidity and agency costs or to reduce information asymmetries. However, the fact that banks have a social *utility* does not preclude them from having a social *responsibility* as well. In chapter 2.6, Moussa Fall

[2] For example, Lord Turner, chairman of Financial Services Authority, declared that banks were « *socially useless* » in 2009. A 2010 New Yorker article also accuses financial institutions of being socially useless (What Good is Wall Street?, John Cassidy, New Yorker, Nov. 29, 2010).

and Claudia Champagne draw a portrait of the social responsibility of financial institutions. The authors analyze the social responsibility of financial institutions based on the financial intermediation theory, stakeholder theory and common good theory. The authors discuss the evaluation of this social responsibility and empirically compare the performance of financial institutions with that of non-financial firms.

In Chapter 2.7, François-Éric Racicot and Raymond Théorêt discuss some of the econometric issues related to the evaluation of hedge funds' risk cycles. A poor risk assessment of financial instruments can have significant consequences for financial market participants. Specifically, the undervaluation of market risk can lead to the overestimation of funds' performance and attract misinformed investors.

Section 3 : Corporate management and environmental, social and governance factors

In order for the financial industry's intermediary role to qualify as responsible, funded and fund-seeking firms need to integrate ESG factors into their activities. This section presents different elements and issues associated with corporate ESG factors. In terms of environment, for instance, corporate responsibility should be aligned with the 2015 Paris Agreement (COP21), which implies the use of achievable, measurable and reportable objectives. Corporations must not only commit in terms of social responsibility, but must also ensure adequate and transparent reporting of their achievements. Responsible investment by financial institutions is only possible if there is both a genuine commitment and corporate accountability in terms of ESG.

In chapter 3.1, Hyacinthe Somé discusses the corporate governance factor and argues that managers and owners have a duty of loyalty to employees, society and the environment. Thus, owners should not prevent investments in socially responsible projects, even if these projects do not increase shareholder value. Corporate governance should therefore be socially responsible.

In Chapter 3.2, Pierre Noël discusses the challenges and opportunities of corporate multiculturalism. The author's main conclusion is that our society's multiculturalism is transposed into corporations, and firms that avoid the issue are exposed to both internal and external risks. In addition, the author discusses the benefits of multicultural firms compared to monocultural firms. The latter are less entrepreneurial, less creative and less innovative compared to firms that hire more immigrants. In addition, a multicultural company can rely on better business networking, which differs from international networking by relying on both domestic and regional networks. The multicultural firm is therefore open to a variety of transnational opportunities that emanate directly from its multiculturalism.

In chapter 3.3, Mourad Ben Amor and Jie He discuss how to evaluate a product or a service by integrating its environmental and economic impacts throughout its life cycle. For example, the life cycle of a product can include the extraction and processing of natural resources, the manufacturing of its components as well as the assembly, packaging, distribution, and management of the final product. The authors present different analytical frameworks to evaluate the impacts of a product or service. In order to better evaluate these impacts, the authors highlight reflections and avenues for research in order to operationalize this essential element of responsible finance.

In chapter 3.4, Karine Pelletier discusses corporate social responsibility in the context of corporate mergers and acquisitions. Mergers and acquisitions, although often part of a firm's normal life cycle, can have significant positive or negative impacts on all stakeholders, both at the time of the transaction and during the integration of activities. The author examines how corporate social responsibility is taken into account in merger and acquisition transactions.

In chapter 3.5, Michel Dion discusses the firm’s dialogic responsibility, which implies considering a growing diversity (of genres, cultures, religions, etc.) and an authentic dialogue, which requires both a fundamental openness to others (taking into account their needs and interests) and more harmonious relationships between individuals. The author suggests a text inspired by various trends and philosophical authors in order to conceive “being-with-others” as the basis of the firm’s dialogic responsibility. In this sense, the firm’s dialogic responsibility complements its social responsibility.

Section 4 : Tax ethics; an important issue for corporate governance and public finances

In social-democratic societies, taxation is generally perceived as socially responsible because of its wealth redistribution function. In addition, tax revenues can only be collected by the State if there is consent for tax. This consent is based on the recognition of the necessary financing of the State and its functions in a democratic system (Bouvier 2014, p.164-165). In this sense, if we accept that taxes constitute an essential contribution for the support of the State, we can argue that tax evasion (fraud) and abusive tax avoidance are behaviors that are incompatible with the social dimension of the ESG factors.

The link between taxes and finance certainly justifies looking at specific aspects of taxation that can stimulate discussions on what constitutes responsible taxation, both in terms of taxpayers’ behavior and governmental fiscal policies. Researchers have been interested, in recent years, in the link between corporate social responsibility and taxation (Avi-Yonah, 2008; Sikka, 2010). More specifically, recent research shows that investors have expectations related to taxes and ESG factors but they are not yet clearly defined (Knuutinen and Pietiläinen, 2017).

Tax rules influence investment decisions and corporate capital structure. For example, the deductibility of interests reduces the cost of financing. In addition, multinationals have access to international financing structures that allow them to benefit from the multiplication of these interest deductions. Further, national tax rules are taken into account in decisions regarding the location of business activities and assets; intangible assets and financial transactions can easily be relocated to benefit from specific tax regimes. As a result, countries that offer tax incentives to attract investments, which result in a tax competition, can distort international capital movements.

Research on taxation is multidisciplinary; taxation constitutes an object of research for several disciplines, including economics, political science, law, management science, sociology and philosophy. The media coverage of tax scandals, notably through journalistic investigations such as for the *Panama Papers*, has revealed major flaws in tax regimes and particularly in the international tax system. These scandals have also raised ethical concerns for professionals, governments, investors and researchers from different disciplines. In this context, the chapters in this section offer a broad perspective on some of the issues and concepts that can be used elicit and important discussion about responsible taxation.

In particular, authors discuss tax ethics and fiscal planning, as well as standards that have increased the transparency of corporations and governmental tax affairs. This section also discusses tax competition between countries, whether they are considered to be tax havens or not. Planning opportunities or tax incentives that result from competition reduce global tax revenues and, consequently, redistributive opportunities to address growing global inequalities.

In chapter 4.1, Marie-Pierre Allard describes the fundamentals of the analysis of aggressive tax planning through the lens of ethics. To the extent that the law allows for some planning and courts recognize the basis of tax law as the ability for everyone to organize their affairs in a way to reduce their taxes, legal standards may be insufficient to monitor tax planning. The author reflects on the contribution of ethical and social standards to overcome the limits of legal norms. Requests for more tax transparency may put pressure on managers to adopt less aggressive tax planning behaviors.

Moreover, in chapter 4.2, Lyne Latulippe discusses recent developments that fit into this demand for greater fiscal transparency. The author relates the results of a few studies that show that tax costs that are avoided through tax planning do not necessarily result in profits or a higher value for the firm in the long term. Thus, one might wonder whether the amounts invested to develop and implement tax planning could not be used more effectively for other purposes. The chapter then outlines the standards that have been developed to require corporations to be more transparent about their tax affairs, at least toward certain stakeholders, such as the government and investors.

Fiscal planning put in place by multinationals often involve entities or transactions in countries that are qualified as tax havens. In chapter 4.3, Mohamed Djouldem raises the need to understand the phenomenon of tax havens because of the considerable volume of financial flows that pass through them. The author presents the evolution of the definitions to identify tax havens and how this issue affects the ability to measure and evaluate the consequences of tax havens. This exercise is nevertheless required to control and limit the tax revenue losses for other countries.

Tax planning is also fueled by tax incentives offered by different countries to attract investments. These practices generate tax competition between countries that can increase national inequalities. In chapter 4.4, Peter Diestch makes a parallel with WTO standards and discusses the need to regulate countries' tax practices at the international level, but to do so by taking into account their initial allocations. Specifically, foreign investment may be more essential to some countries than others.

Public finances encompass expenditures, which include tax incentives (deductions, exemptions or credits), as well as revenues, which include tax revenues and duties. In democratic systems, governments are accountable for the management of public funds, which implies transparency in the decision-making process on tax policy and the use of funds. In chapter 4.5, Geneviève Tellier takes a look at a fundamental element for the functioning of democracy, that of transparency in the context of public finances. The author presents the rules and procedures recently put in place in Canada to increase transparency, accountability, and budgetary discipline both for members of parliament, for instance through the rules introduced by the federal government, and for the general population, which has been observed more generally on a provincial level. The analysis shows that measures to increase the participation of members of parliament and the population are not always effective and generally only involve the downstream involvement of the budget cycle through accountability rather than upstream through budget development.

Section 5 : Responsible finance : from financial crimes to financial integrity and regulation

« *The ethics of an occupation or a profession is best understood not by examining the worst conduct of its members but by attending to the conduct that is commonly expected and generally found* » (Boatright, p.4)

The financial frauds uncovered in recent years have not helped to restore the image of finance. In many respects, however, frauds are primarily related to individuals and not to a corrupt "system". This does not imply that nothing should be changed to prevent or limit these events, for example by reducing incentives that may have adverse effects or by improving governance and fraud detection mechanisms. As a matter of fact, financial institutions are active participants in the fight against fraud and financial crimes.[3] Unlike other sectors, however, financial activities offer many *opportunities* to enrich oneself at the expense of others. Specifically, through its intermediary role, the financial sector manages people's money, which can incite malicious behavior. Thus, the financial sector, because it literally deals with money, is often at the heart of more *opportunities* for fraud.

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[3] For example, in Canada, financial institutions fully collaborate with the Financial Transactions and Reports Analysis Center of Canada (FINTRAC).

As previously discussed, financial theory is considered to be ethically neutral and without normative import. But even if the academic study of finance ethics is relatively new, ethicists have long debated the elements of finance that can elicit ethical problems. These discussions form the basis of most of the rules and regulations surrounding financial markets and financial institutions, including self-regulation.

In chapter 5.1, Michel Fortier discusses postmodern ethics and the limited consideration of moral dimensions in economic and financial decisions. However, corporations and the individuals that compose them are “adiaphoric”, that is, they admit that organizational actions are free of evaluations and moral meanings. In light of the individualization of current societies as well as social and economic inequalities, the author asks the following question: "is it possible to govern the economy and finance for the benefit of the majority and not just for a minority, as is the case now?". According to the author, there is still time to moralize business, including taking the lead in sustainable development and considering the human and environmental costs that are neglected.

In chapter 5.2, Claude Mathieu and Yves Trudel argue that the gap between innovations in the financial markets and their adequate surveillance is a source of cycles in financial irregularities. The authors apply the theory of routine activities in the context of absent or deficient surveillance of financial activities. The authors suggest that competent authorities must diligently examine the introduction of any new financial product and restrict it if the regulatory or surveillance contexts prove to be insufficient. They further add that no market or stakeholder should have the privilege of opacity, since the principles of good governance and the fight against financial crime advocate transparency and disclosure of information.

Not only have many of the financial scandals since the beginning of the 21st century brought enormous financial losses, but they come from all over the world: from the United States (Enron, Conseco, WorldCom and Lehman Brothers) to Australia (Harris Scarfe and HIH Insurance), through Italy (Parmalat), France (Vivendi Universal), the Netherlands (Royal Ahold), China (Yinguangxia), South Korea (SK Global), India (Satyam Computer Services) and Japan (Livedoor). The scale and extent of these scandals have increased the interest in the development of models and analysis tools to detect corporate fraud. Chapter 5.3 proposed by Frank Coggins, Line Drapeau and Nesrine Yahyaoui is intended to be a summary of the academic literature in this field, including recent tools that use artificial intelligence and data mining.

As previously discussed, the social responsibility of the financial sector is based on a concept of equity or justice. But the most common way of ensuring equity and fairness in the markets is through regulation. In chapter 5.4, Anastassios Gentzoglanis discusses sustainable financial regulation. More specifically, the author analyzes the importance of regulatory coordination and harmonization in order to minimize the impact on transnational business management. The evolution of American and European regulations illustrates the “race to be the worst” in class in terms of regulation, which likely contributed to the 2007-08 financial crisis.

In Chapter 5.5, Stéphane Chrétien, Kevin Lee and Caroline Palardy discuss regulation as a way to resolve conflicts of interest related to the duty of financial advisors. Specifically, we observe that some intermediaries (who advise or offer the product) have managed to act according to their own interests rather than those of their client. The regulator should be concerned with the structures of exercise of the intermediary, the modes of remuneration, the structure of the organization, etc.

In Chapter 5.6, André Lacroix and Allison Marchildon expose Socially Responsible Finance (SRF) as a way of moralizing the economy from within, by proposing a normative response to maximizing wealth from new principles that enhance financial performance and corporate decision-making. The authors propose a reflection of SRF which would situate an ethical perspective upstream of the economic dimension, in order not only to avoid certain slippages, but also to allow a better use of the resources to the realization of the aims and values identified in even the process of ethical reflection

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