

ESG Infrastructure at the Crossroads: Ratings, Labels, and the Challenge of Transformation

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Opening: The Impossible Question

Let me take you back to a meeting in Brussels, just yesterday. The room is tense. Around the table sit fund managers, sustainability experts, academics—people who've spent years building consensus around what "sustainable investment" means.

The question on the table should be simple: Does a defense company belong in a fund carrying the Towards Sustainability label? For years, the answer was clear: No. Defense means weapons. Weapons mean harm. It's in the exclusion list, case closed.

But now it's 2025. Russian tanks have rolled into Ukraine. European security assumptions lie in ruins. And suddenly, that simple answer doesn't feel so simple anymore. Some argue: "We built these frameworks for a reason. If we compromise on exclusions, what's the point of having standards at all?" Others counter: "The world has changed. Defensive capabilities are now existential. Are we really saying that protecting democracy is unsustainable?"

The debate goes on forever. No consensus. Decisions are postponed.

Here's why this moment matters—and why it reveals something profound about everything we've built over the past 20 years and more.

That room wasn't experiencing a failure of sustainable finance. They were experiencing its *truth*. The business-social paradox of sustainable finance isn't a bug in our ESG systems. The paradox is the system.

Act I: The Promise—Building Bridges to Make Sustainability Legible

More than twenty years ago, we had a problem and a dream.

The problem: How do you make markets care about things markets don't naturally value? How do you price in climate risk, social justice, intergenerational equity—things that don't show up in quarterly earnings?

The dream: We would build bridges. Infrastructure—data, ratings, labels—that would connect sustainability to finance. Make it comparable. Make it measurable. Make it investable.

And remarkable people did exactly that. Pioneers in this room who built rating agencies to pressure companies beyond financial performance. Experts among us who convinced major institutional investors that fiduciary duty could encompass ESG factors. Analysts who brought ESG into mainstream research with sophisticated quantitative models. Activists who believed finance could drive corporate change more powerfully than politics. And the FIR who gave them a space to meet.

These weren't just technicians building tools. These were bridge-builders, convinced that finance could be redirected toward justice and planetary boundaries.

And we succeeded. Look at what we've built:

- Comprehensive ESG data covering thousands of companies
- Rating agencies scoring sustainability performance
- Labels certifying funds as genuinely sustainable
- Regulations requiring disclosure and standardization

The financialization of ESG has transformed markets. This is not a small achievement.

But here's what 20 years of practice have taught us, what my research into rating agencies, labeling systems, and ESG measurement tools has revealed:

Every bridge we build to connect purpose and finance can be travelled both ways and strengthens the business-social paradox.

Act II: The Problem—Paradoxes All the Way Down

First the Measurement Paradox: We need numbers to make sustainability comparable. But the moment we reduce complex social and environmental realities to scores, we lose the nuance and meaning that makes those realities matter.

You can measure carbon emissions. But can you score justice? Can you rate care?

Second the Efficiency Paradox: Activities expected of sustainable investing like investment, engaging, or reporting, require resources (time, people, money.), despite having no evidence of influencing companies' or investors' behaviour, no evidence of materiality. So we build transparent methodologies so markets can function efficiently. But transparency also creates a roadmap for gaming the system. The more legible our standards, the easier they are to manipulate for greenwashing.

Third, the Time Horizon Paradox: Sustainable finance is supposed to be about long-term value—protecting future generations, enabling transition. But it operates in markets that demand quarterly returns and short-term proof of concept.

You might think: "These are growing pains. We need better data, clearer definitions. We'll solve these problems."

But here's the insight: These aren't problems to solve. They're tensions to work with because they will stay.

The paradoxes are inherent to embedding social purpose in financial markets. You cannot eliminate them. You can only learn to work *with* them. But here's the critical question: When we learn to "work with" paradoxes, when we become sophisticated at managing these tensions—what happens to the original values that motivated us?

My research reveals something troubling about this process. The pioneers themselves often don't see the dilution of values happening.

We've interviewed the people who built this field. Many of you, brilliant, deeply committed individuals. When we mapped their theories of change—their original impact goals against their realized outcomes—a pattern emerged that was both clear and disappointing.

One pioneer set out to use fiduciary duty to improve corporate practices. The realized impact? A market where ESG data is everywhere—but used more as window dressing than for genuine transformation. In their words: the system absorbed the critique without fundamentally changing.

Another believed that changing how we invest would shape the world we live in. The realized impact? Successfully mainstreaming sustainable investing in financial research—but now questioning whether it's had any impact on the real economy, since ecological trends remain negative.

A third wanted to create more powerful leverage on corporate practices than political power itself, innovating through new analytical tools. The realized impact? Frustration that asset managers use the scores for communication rather than for capital allocation.

This pattern repeated across every pioneer we interviewed.

When describing their successes, they focused on *market outcomes*—"We created the field! ESG is mainstream! Trillions under management!" But the transformation they actually sought—the redirection of capital toward justice and planetary boundaries—that got lost in translation.

And most didn't fully realize it.

As these experts moved from NGOs to banks, from activism to asset management, their language shifted. They rationalized it: "We're being pragmatic. We're moving the needle."

But what if ESG's market success became its ethical failure?

Act III: The Practice—Hybrid Judgment as Bridge Between Data and Values

So what do we do? How do we build tools and systems that work, knowing they carry these paradoxes—and knowing we're vulnerable to unconscious compromise?

One answer is hybrid judgment.

Look at how ESG ratings and labels actually function. They use calculative mechanisms—data, metrics, transparent methodologies—for efficiency, comparability, and market legitimacy.

And they use discursive judgment—expert committees, stakeholder consultations, case-by-case reviews—for ethical accountability, contextual sensitivity, and resistance to manipulation.

Ratings agencies bridge data and judgment: combining systematic analysis with expert overlay. Labels bridge investors and fund managers: balancing transparent criteria with empowered governance that can block greenwashing.

This hybrid structure isn't a compromise. It's the recognition that paradox management requires both modes of knowing.

That means we want to train professionals who can:

- Anchor decisions in quantitative analysis while maintaining qualitative judgment
- Apply consistent standards while remaining responsive to context
- Build transparent systems while exercising discretion to prevent abuse

This is genuinely difficult work. It requires intellectual humility, moral courage, and emotional resilience—holding tension, accepting to live with paradoxes, without rushing to false resolution.

But—and this is critical—hybrid judgment alone is not enough.

Because even people exercising sophisticated judgment can lose sight of their original values. The question isn't just *how* we make decisions. It's *for whom* and *toward what end*.

The real challenge: Who are we managing these paradoxes for?

Sustainable finance, at its core, is about care for those who are not in this room. Future generations who cannot bid in today's markets. Distant communities affected by supply chains they didn't choose. Non-human life with no voice in our systems.

When label committees debate defense exclusions, they're exercising care—weighing security needs against peace commitments, considering how Brussels decisions ripple to distant communities.

When rating agencies review dual-use technologies, they're making ethical choices about which futures we want to finance.

When label committees block superficial improvements, they're protecting stakeholders who trust these certifications.

This is care work disguised as financial analysis.

The systems that do this best don't pretend to eliminate judgment. They don't hide behind algorithmic objectivity. They embrace their role as moral agents and build governance structures that make that agency accountable.

Act IV: The Frontier—Transforming Valuation Itself

We've built remarkable infrastructure for ESG integration—for making existing financial decisions better informed. But here's the uncomfortable truth: Integration isn't transformation.

Most ESG funds still use traditional valuation models. Discounted cash flows. Market multiples. Risk-adjusted returns. Tools designed to maximize shareholder value within existing market logic.

Think about a truly sustainable energy project—one that builds community ownership, trains local workers, protects ecosystems, and plans for 50-year impact. Run it through a standard model with market discount rates, and it often looks unattractive.

Not because it's a bad investment. Because our valuation tools weren't designed to see transformation.

This is the next frontier. We need frameworks that:

- Value intentionality—the theory of change matters
- Accept longer time horizons without penalizing them
- Distinguish authentic transition from incremental greenwashing

We're beginning to see experimentation: new valuation approaches that incorporate transformation potential, governance structures that privilege long-term outcomes, theory-of-change frameworks that make intended impact explicit and trackable.

But we won't get there through technical fixes alone. We need cultural change within finance itself—recognizing that financial return is a means to flourishing, not an end in itself.

And we need something my research convinced me is essential.

We need what I call "critical personal ethics."

Not ethical absolutism—holding pure, unchanging values and refusing all compromise. That leads to marginalization.

Not pure instrumentalism—treating values as mere tools for market acceptance. That's the path to unconscious dilution.

Critical personal ethics is reflexive tension maintenance.

The conscious, ongoing recognition of the gap between your transformative goals and your actual market impacts. The refusal to rationalize away that gap.

It means asking yourself, constantly and uncomfortably:

- What values did I start with, and which ones am I still honoring?
- What language am I using now, and what does that shift reveal?
- Am I celebrating market outcomes while ignoring impact failures?
- Have I become so embedded in financial logic that I can no longer see alternatives?

Closing: The Challenge Ahead

That committee room in Brussels. The impossible question. The postponed decision.

The willingness to sit with discomfort was the point.

The refusal to force premature consensus. The care taken to hear multiple perspectives. The honesty about not having perfect answers.

That's what 20 years of FIR has taught us to do. FIR has built bridges—between activists and bankers, between values and markets, between academic research and professional practice.

We started with a dream of making sustainability legible to markets. We succeeded in building the infrastructure, the tools.

But we've learned something more troubling: **The bridges we built allowed traffic in both directions.** Not just sustainability entering finance—but finance reshaping sustainability.

The pioneers who built this field didn't always see the dilution happening to their own values. They rationalized market success as transformative impact.

We have the opportunity to learn from this history. The pioneers who built this field created the infrastructure that makes our work possible—and they also showed us, through their experience, how subtle and gradual value dilution can be. That's not a criticism of their work. It's a recognition that these dynamics are powerful and often invisible until we step back and examine them systematically.

Every rating you produce, every label you design, every fund you evaluate—you're not just applying standards. You're negotiating the relationship between profit and purpose. You're exercising care for stakeholders who cannot speak for themselves.

And you're vulnerable to the same unconscious dilution.

So what does this mean for practice?

My research suggests that critical personal ethics isn't about rejecting the tools we've built or the markets we've created. It's about maintaining a reflexive awareness that those tools and markets have their own momentum—one that can diverge from our intentions.

This means building in mechanisms for ongoing re-examination:

When we celebrate that ESG is mainstream, we might also ask: mainstream for what purpose? When we point to trillions in sustainable assets, we might specify: sustainable according to which definition, serving whose interests?

When we develop new methodologies, we might examine: what gets measured, what gets lost, and who benefits from that choice?

The systems that do this well—whether rating agencies, labels, or regulatory frameworks—tend to combine technical rigor with spaces for ethical deliberation. They're transparent about their limitations. They create governance structures that resist both pure algorithmic objectivity and unchecked subjectivity. They adapt, but they also maintain anchors.

Twenty years in, we understand the paradoxes. We've built sophisticated infrastructure. We've developed hybrid expertise.

But we've also documented how market success can mask ethical drift. How committed professionals can gradually lose sight of transformative goals while celebrating incremental outcomes.

The question for the next 20 years isn't whether we can eliminate these tensions—we can't. It's whether we can build systems and practices that make the tensions visible, that resist the rationalization, that maintain space for the question: **Are we still building bridges toward the world we wanted, or have we become comfortable managing traffic on the bridges we have?**

That discomfort—that ongoing questioning—may be the most valuable expertise we can develop.

Thank you.