MISSION IMFOSSIBLE

Why Social Practice Theories should be applied to energy investments

Dear social practice research community,
We need to talk.

So please grab yourself a sustainably sourced, low-carbon coffee and sit down with us so we can collectively address the elephant in the room:

Figure 1: Meme about investments in fossil fuels [1].

It is the beginning of 2024 and humanity seems to be torn apart between destroying and saving the world. On an increasingly global level, societies struggle to transition to clean energy, to change their ways of eating, working and travelling, for the sake of a sustainable future. You as social practice researchers have contributed a lot to understanding both these practices and potentials to change. Yet at the very same time, decisions to further invest in the fossil fuel industry are taken. Oil, gas and coal businesses continue to fill the pockets of billionaires, while further fuelling the climate crisis.

And this, dear research community, is where you come into play. We argue that, by finally engaging with the powerful practices of energy investments, you might be able to bring about much-needed change. How to approach that, you ask? We will try to provide some food for thought on why and how you might incorporate investment practices in your work. Just keep on reading.

Why should we apply social practice theories to investing?

The simple answer? It´s a win-win! **Sustainable investments benefit from being studied through social practice theories (SPTs) and SPTs benefit from incorporating the practice of investment.**

A lot of research has been done on socially responsible investment, yet the lion's share of the literature focuses on financial performance measurement only [2]. This fails to both address material implications (for the environment and people) as well as the overall socio-economic and cultural context in which investment takes place – aspects that SPTs might be able to shine light on.

Over the past years, SPTs have increasingly informed research on (un)sustainable practices rooted in our societies. However, the main focus seems to lie on the consumption practices of average people [3]. We argue that especially against the backdrop of the urgent necessity to cut emissions, this does not suffice.

Firstly, from an effectiveness perspective, affluent groups should be at the core of sustainability transformation research since their practices entail a disproportionately big share of overall emissions [4; 5]. This already applies to their consumption-based emissions but even more so when also considering the emissions resulting from investment activities (see Figure 2). Moreover, financial support for clean energy solutions is desperately needed for sustainable change. To understand why and how sustainable investment practices might emerge is therefore crucial. SPTs do not only hold potential in this regard but could also help identify change points. Within this, the point is neither trying to change specific individuals and their behaviour nor blindly altering structures in the hope of redirecting investments. Instead, **it is about investigating how both agency and structure might hinder or advance sustainable investment practices**. This could help inform policymakers to come up with interventions that actually work – we will come back to this later. Great emission-reducing potential thus lies in studying and changing the practices of the richest, especially their investments.

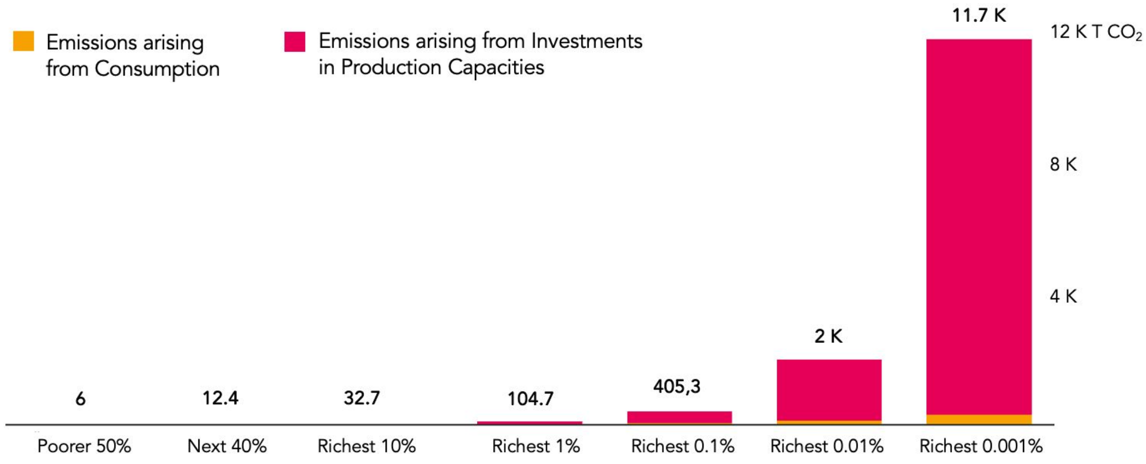

Figure 2: Per capita emissions in Germany, categorized by income classes [6]. Internationally, the situation is similar [4].

Secondly, to see why SPTs should be applied to investing one would need to look no further than the discourse on SPTs itself. Over a decade ago, it was argued prominently that **SPTs must engage with power** if they are to contribute to transformations [7]. Yet, this engagement is still lacking [8]. Similarly, at the emergence of SPTs, it was argued that their study of consumption must result in the study of capitalism [9]. Three decades later, however, this too has not been sufficiently realised [10]. Lastly, there are calls for SPTs to engage more with justice and inequality [11]. Studying investment practices is one way, we suggest, to go forward in these directions, as investing and connected practices exert power and are at the heart of the capitalist economy. On how to go forward research-wise, you will find some inspiration in the following sections.

How to think of investment as a practice?

Let´s have a look at the practices of investment and how it has evolved within the capitalist economy – don´t worry, we won't dive into the history books too much. While in agrarian economies, land was the decisive productivity factor and financial instruments were limited, the importance of investment increased with the Industrial Revolution. The need for large-scale investment in production sites and infrastructure led to the development of stock markets and new financial instruments. The rising fossil fuel industry thereby laid the foundation for other economic branches, enabling the widespread of fossil-based production and consumption patterns. **The fossil lock-in was set**.

Following the Industrial Revolution, another fundamental change in investment practices was caused by globalization and technological development: Connected markets and increasingly data-driven instruments, hence flexible materials, paved the way to global financialization. Today, investment covers a multi-faceted and wide range of financial activities. The outlay of money is used to generate profit and therefore means an important income source for its practitioners. At the same time, investment remains the financial basis for the provision of goods, infrastructures, and services. And yes, many of these investment practices cling directly to fossil fuel assets, or indirectly to a production system addicted to and saturating high-carbon consumption. As if this wasn´t enough already, we are not only talking about running businesses: In 2023, 96% of the upstream oil and gas companies on the GOGEL database were still exploring or developing new oil and gas fields [12]. The lock-in holds on. In 2024, how can this still be the case?

First of all, there is a large physical and cognitive distance between the mouse click to buy an asset and its material implications, be it new fossil infrastructure, or the setting up of a wind turbine. The investors´ portfolios, platforms, and connected hardware hardly reflect the material outcomes of the practice. The latter are also disconnected from the motivations driving fossil fuel investments of the super-rich: We see **profit-making and striving for growth on the one side, riskful extraction and environmental destruction on the other.** And both are highly reliable: In 2023, the world´s oil giants could lavish their shareholders with record profits, thus record payouts [13]. Following their financial interests, most investors are far from truly pricing in the negative ecological and social externalities of their practices. However, some super-rich investors have also used their position to push companies to more renewables. But in which type of energy, at which project scale, in which business model – in which concrete asset should they invest? The evolution in the meaning and material implications of investment requires an in-depth understanding of how and where money can feed the transformation to a sustainable global energy system.

Where is the power in and around investment practices?

To study investment practices, it is thus necessary to go beyond its elements and to look at its interconnections. Figure 3 depicts a network of some of the practices addressed in this blog and interconnections between them. When zooming in or out of this network, one would identify more practices and interconnections inside and outside of all practices. By addressing these interconnections, we will **work out some**

entry points for researching the workings of power and capitalism in and around investment practices.

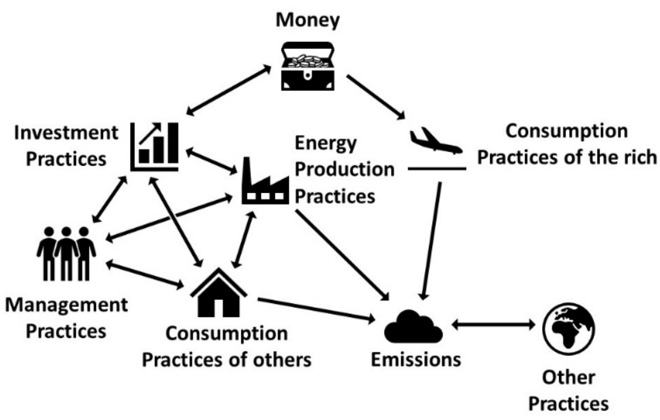

Figure 3: Investment Practices in an open network of practices. Double-headed arrows indicate mutually reinforcing relationships [own creation].

To study power in practices, SPTs first need a definition of power that works for practices. Generally, power can be divided into power *over*, *to*, *with* or *within* [14; 15]. But even within these categories, numerous definitions exist. As a starting point, scholars could adapt a 'power over' definition [16] to define power as the influence of one practice over another practice, without which the latter would not be practised the way it is.

How might 'power over' be exercised in and around investments? Through investments, consumption patterns of the general public are influenced [17]. Think, for example, of energy providers. If they invest in fossil fuel infrastructure, fossil fuels are consumed in households. Consumers might want to change to an energy provider that offers renewable energy. But again, they can only do so if private or public investments in renewable energy have been made previously. The agency of average consumers is thus limited by the (infra)structure which, in turn, is shaped by and shapes investment practices. Additionally, investments also have an influence on the management practices of businesses [18]. The climate relevance of this process can, for example, be seen in the cases of MIBRAG and LEAG, energy providers in the east of Germany. After an investment company acquired these providers, it initiated practices to continue using coal, despite previous discussions to stop that [19]. Besides businesses, investors also considerably influence energy politics. How can it be explained that at COP 28, a record number of 2,456 fossil fuel lobbyists pushed for fuelling the climate crisis[20]? It might be a sign of a last fossil rearing up. **Merging the SPT-lens with a lens sensitive to power dynamics** contributes to the explanation of why practices are the way they are. This could help identify more power-related change points.

Additionally, to understand how investment practices can exert power in a system of practices, one needs to understand how practices are reinforced. For example, investment practices reinforce themselves. Investments tend to increase the money that is needed to invest, which allows for more investments and more consumption. Consumption, on the other hand, tends to reduce the money that was needed to consume and does not reinforce itself, at least money-wise (see figure 3).

However, it is also in the broader system that investment practices are reinforced. In a capitalist economy, investment´s first obligation is to yield profits. Numerous market actors, as well as governments, rely on growing profits, as the continuation of their operations depends on it. This reinforces the profit-oriented way investments are currently practised. Every existing link and dependency can then become a hurdle for change [21] away from growth, which might be necessary to reach sustainability. Without understanding these capitalist surroundings, it is hard to understand investment practices. **Only because they are held in a powerful place by surrounding practices, investment practices can exert the power described above.**

How to approach the empirical research?

By now, we have introduced many research topics we think are important. Studying investment practices, however, is far from easy. Scholars will come across some hurdles when applying SPTs to investment practices since data availability for the role of sustainability in private investment is limited. In general, the *average Joe* already tends to be hesitant to share financial information [22]. **High Net-Worth Individuals in particular manage to keep their investment practice details obscure through a myriad of ways**, including the use of private vehicles for investment and offshoring investments [23; 24]. The unavailability of this information makes the effects and internal dynamics of this practice bundle incredibly difficult to empirically assess.

Because of this challenge, exploring possibilities for data acquisition becomes imperative. We see potential in exploring alternative research methods, such as leveraging data from private capital investment management firms or tracking the investments of private equity funds to gain insights. Additionally, the experiences of SPT scholars with qualitative methods such as focus group discussions or intercept interviews might be fruitful to consult those investors that are already on the track to more sustainable investment. From their side, fresh insights might be waiting, as environmental policy changes over the past years have at least tried to steer investment to more sustainable pathways.

Informing financial policies for transformation?

Disruptive change in practices can be triggered by policy interventions. *The EU Taxonomy for Sustainable Activities* could be seen as such a disruption with respective implications for the practice of investing and its elements. The taxonomy was introduced as "a classification system that defines criteria for economic activities that are aligned with a net zero trajectory by 2050 and the broader environmental goals other than climate" [25]. **Why should policies like the taxonomy be an entry point for the study of investment practices**, you might wonder now? As investment practices are seldom disclosed and challenging to study, dissecting the policies that specifically target them can help understand and discover the connected practices. You as researchers could therefore scrutinise the policy's effects on the practice elements to assess the top-down transformative potential of the taxonomy. Such **a practice review of the taxonomy has not yet been undertaken** but should be strongly encouraged.

It seems to us that changing the meanings of the practice is the hardest through a taxonomy. While the meaning of investing might differ from practitioner to practitioner, the taxonomy seems to not introduce comprehensive 'sustainable' meanings to the practice. This can be illustrated, for example, with the continuous inclusion of gas and nuclear as 'clean' or the vague definitions for 'Doing no significant harm' criteria for the circular economy [26].

However, the taxonomy might consolidate the agency of investors to make more evenly informed decisions. A change in competencies could be seen in the ambition of making it easier for investors to see which companies and portfolios are more sustainable. The taxonomy, however, might also result in new competencies being required for the practice of sustainable investment, namely the capability to screen and interpret the fulfilment of EU taxonomy criteria.

This being said, if used correctly, thoroughly and with good will, the taxonomy could have implications for the material outcome of investment transactions. By altering the regulatory context of investments, it has the potential to direct money away from carbon-intensive industries towards 'greening' endeavours like more sustainable energy production. A deeper analysis of the elements of the investment practices and how they are (un)affected by the taxonomy in its current form might help **strengthen the regulation's effectiveness**. But who is included in the practice as a practitioner will not be influenced by it, which refers back to questions of power.

Attempting the mission imfossible!

If you are now left with even more open questions than before, we have reached the goal of our blog. We demonstrated why we believe a focus on investments in SPTs to be crucial. We challenged you with problems, assumptions and recommendations on starting points – we hope that now you bring forth the yearned-for research. Especially the development of methods in such an evolving field will be crucial for the exploration of the questions posed. Yes, we are aware that we are asking a lot from you and that we are only students – but phasing out fossil fuels is as urgent as ever, carries great potential and needs your contribution. It is hard to study investment practices because they are hidden; it is hard to study power relations because they are intangible; it is hard to change investment practices because - well... capitalism.

Still, we urge you to engage in this *mission imfossible*. It is too significant not to tackle it.

Best,

Your most critical fans