

Institutionalization of sustainability in the European funds markets

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The European Union's Action Plan for Financing Sustainable Growth aims to mobilize private capital to help close the annual €620 billion investment gap required to meet the climate targets stated by the EU Commission. By introducing a regulatory framework that standardizes non-financial disclosures and classifies economic activities according to sustainability criteria, the Action Plan has significantly reshaped the European investment fund market. ESG-labelled funds have entered the financial mainstream, yet their actual alignment with environmental objectives remains ambiguous. Despite regulatory efforts to homogenize sustainable finance, funds exhibit substantial methodological heterogeneity, raising concerns about greenwashing and limited real-economy impact.

Two dominant research strands offer contrasting interpretations of these developments. Structural accounts frame sustainable finance as a neoliberal response to climate change, emphasizing how market-based solutions prioritize financial returns over effective environmental action. In contrast, actor-centered approaches highlight the diverse interpretations and practices of financial professionals, intermediaries, and regulators, who actively co-construct the meaning of sustainability. These processes result in highly varied methodologies and outcomes across the sustainable finance field.

This study integrates both perspectives through the lens of actor-centered institutionalism to examine how sustainability is institutionalized within the European capital market. It focuses on the performativity of regulation—how rules are enacted, negotiated, and translated into financial practice—and reveals that sustainability is not a fixed or universally defined concept, but one dynamically shaped through the practices

and interpretations of involved actors. Specifically, the study demonstrates how geopolitical and geoeconomic developments continuously reshape what is considered “sustainable,” and how financial, regulatory, and environmental actors respond to these shifts. Thus, the analysis highlights the interdependence and mechanisms through which actors form a network that co-produces and institutionalizes sustainability. In doing so, the study advances a sociological understanding of sustainable finance as a contested and evolving field, marked by power asymmetries, competing institutional logics, and epistemic struggles over how environmental concerns are translated into financial practices.