



ELABORATING ESG CRITERIA IN INVESTMENTS

DOI: 10.17261/Pressacademia.2023.1795

PAP- V.17-2023(50)-p.228-229

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To cite this document

Loukili, M., Benli, V.F., (2023). Elaborating ESG criteria in investments. PressAcademia Procedia (PAP), 17, 228-229.

Permanent link to this document: <http://doi.org/10.17261/Pressacademia.2023.1795>

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ABSTRACT

Purpose- The aim of this study is to conduct a comprehensive analysis of ESG criteria in investments, and to investigate the potential correlation between ESG pillar scores (i.e., environmental, social, and governance) and the market value of banks. Moreover, the study seeks to identify the areas where ESG performance is most valuable and relevant. ESG investment is a contentious subject, and there are varying perspectives regarding the appropriate weight given to ESG pillars when investing and managing certain banks. The study aims to establish ESG goals and means, define, evaluate, and report ESG performance of firms, and assist investors in comprehending the significance of ESG criteria in making informed investment decisions. Finally, the study provides insights into the implications of ESG investment for businesses and the capital markets as a whole.

Methodology- To investigate the correlation of ESG scores on the market value of banks, a quantitative research methodology was employed, which involved a thematic analysis to identify and analyse relevant data. The dataset for this study was obtained from Thomson Reuters database, and it includes data from the past 10 years' operating in the Turkish and Swiss banks.

Findings- The findings of the study suggest that ESG factors have a stronger and more significant impact on the market values of Swiss banks compared to Turkish banks. The higher degree of integration and alignment between ESG concerns and market value is evident through the stronger correlations observed between ESG scores, market capitalization, and the individual pillars within Swiss banks. This implies that Swiss banks have demonstrated a better incorporation of ESG considerations into their market valuations, potentially reflecting their stronger focus on sustainability, responsible business practices, and investor demands for ESG-related performance. Overall, these empirical findings support the hypothesis that there is a positive impact of ESG scores on market value of banks.

Conclusion- In sum, the analysis involved examining the correlation between various ESG metrics and market capitalization with a positive correlation between ESG scores and market capitalization in both Turkish and Swiss banks. Specifically, the correlation matrix showed that ESG scores were positively associated with market capitalization, indicating that higher ESG scores were generally accompanied by higher market values. Furthermore, the analysis highlighted the significance of individual ESG pillars. In both Turkish and Swiss banks, the E Pillar Score, S Pillar Score, and G Pillar Score showed positive correlations with market capitalization, suggesting that environmental, social, and governance factors play a role in influencing market value.

Keywords: ESG scores, financial performance, sustainability, environmental risk, banking.

JEL Codes: G11,G12,G5

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