University of Zurich[UZH]

Department of Banking and Finance
Center for Sustainable Finance and Private Wealth (CSP)

CSP Briefing Notes Series

Summarizing the scientific discourse on key topics in sustainable finance and private wealth

ESG and Financial Performance

Prof. Dr. Timo Busch

This analysis illustrates the clear business case of a good ESG performance of companies. Roughly 90 % of academic studies find a non-negative relation between ESG criteria and financial performance with an overwhelming share of studies showing positive results.

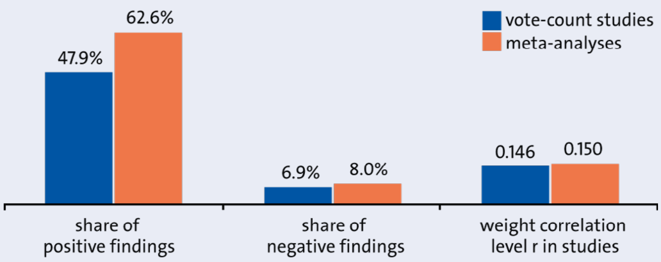
Current status of knowledge

The search for a relation between environmental, social, and governance (ESG) criteria and corporate financial performance (CFP) of companies can be traced back to the beginning of the 1970s. Scholars and investors have published more than 2000 empirical studies and several review studies on this relation since then. While some studies find a positive relationship between ESG criteria and the financial performance of companies, other studies suggest that this relationship is neutral or even negative. In sum, one may argue, the literature to date has proved a mixed picture. It seems that there is no unequivocal answer how sustainability and financial performance are related. The largest previous review study analyzes just a fraction of existing primary studies, making findings difficult to generalize. Thus, knowledge on the financial effects of ESG criteria remains fragmented in many ways.

Core question

Two key questions for any investor are: Do Environmental, Social, and Governance (ESG) criteria influence a firm's financial performance? If so, how?

To overcome this shortcoming, a 2015 published study provides a clear picture of the current status of academic research on this question. The study extracts all provided primary and secondary data of previous academic review studies. Through doing this, the study combines the findings of about 2200 individual studies. In terms of methods, this so-called 2nd order Meta-Analysis utilizes the outcomes of prior vote-count studies and meta-analyses. Vote-count studies just illustrate whether the utilized primary studies report a positive, negative, or neutral result. Meta-analyses report more detailed statistical information.



Distribution of findings of 2'200 studies on the relationship between firms' ESG and financial performance

This study is by far the most exhaustive overview of academic research on this topic and allows for generalizable statements. The results show that the business case for ESG investing is empirically very well founded. Roughly 90% of studies find a nonnegative ESG–CFP relation. This indicates that companies that do better on ESG criteria also perform better financially. More importantly, the large majority of studies reports positive findings. The weighted correlation levels are about 0.15. This correlation level indicates that on average across all studies the ESG–CFP relation is positive. As an important outlook, the study highlights that the positive ESG impact on CFP appears stable over time.

Open question

While in a first effort the study also looks at differences between portfolio and non-portfolio studies, world regions, and asset classes, further more fine-grained research is needed for ESG investing. Especially the entire young investment style "impact investments" has not been investigated in depth regarding both, the long-term financial implications as well as the real world effects in terms of improved sustainability conditions.

What CSP is doing

In several research projects we will focus in depth on understanding the linkage between ESG criteria and different investment types and styles. Based on our results investors will obtain a more comprehensive picture and reliable information on how to best facilitate and foster sustainable investments.

Sources and further readings

→ Friede, G., Busch, T., Bassen, A. (2015): ESG and Financial Performance: Aggregated Evidence from more than 2,000 Empirical Studies. Journal of Sustainable Finance & Investment, 5 (4), 210-233. The entire study is free for download under: http://www.tandfonline.com/doi/pdf/10.1080/20430795.2015.1118917

→ Clark, G. L., Feiner, A., & Viehs, M. (2014). From the Stockholder to the Stakeholder. How Sustainability can drive Financial Outperformance. Oxford: University of Oxford.

→ Orlitzky, M., Schmidt, F. L., & Rynes, S. L. (2003). Corporate social and financial performance: A meta-analysis. Organization Studies, 24(3), 403-441

About CSP

The Center for Sustainable Finance and Private Wealth (CSP) is located at the Department of Banking and Finance at the University of Zurich. CSP is the world's first university unit focused on the deployment of substantial private fortunes in sustainable finance means. The Center pursues four key activity streams in order to strategically advance this topic globally: academically sound research, innovative university teaching, highly specific executive education, and strategic public outreach. CSP was set up to expand the work of its originators: The "Impact Investing for the Next Generation" research and training program at the Initiative for Responsible Investment at the Harvard Kennedy School, and the Center for Microfinance at University of Zurich.

More information at www.csp.uzh.ch

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Impressum

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