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ESG RATINGS IN THE INVESTMENT PROCESS

BY

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ABSTRACT

Recently, environmental, social and governance (ESG) concerns are becoming increasingly popular due to the observed needs that the global community faces. Governments, business and individual factors engage all the way more in assisting to a world's transition to sustainability and sustainable development. This study aims to explain the theoretical background behind the meaning of ESG, focusing on its characteristics, make a brief description of the occurred incidents in order to reach to the point of involving ESG issues into daily activities, such as business activities, investing, policymaking etc. and continues with noting the progress of Europe, North America and Asia as for their ESG engagement and their results. Moreover, this study presents both the factors which drive the global community to commit to ESG principles and the limitations which need to be overcome so as to eliminate the existing negativity towards the utility and efficiency of ESG.

Keywords: ESG, investing, ratings, disclosure, rating agencies, transparency, characteristics, historical approach, development, factors, limitations. controversy

TABLE OF CONTENTS

ACKNOWLEDGEMENTS…………………………………………………………………..ii

ABSTRACT……………………………………………………………………………….iii

TABLE OF CONTENTS………………………………………………………………….iv

LIST OF FIGURES………………………………………………………………………...v

INTRODUCTION…………………………………………………………………………1

SECTION 1: THEORETICAL BACKGROUND AND CHARACTERISTICS OF ESG......3

SECTION 2: ESG HISTORICAL APPROACH AND DEVELOPMENT…………………..6

2.1 Europe……………………………………………………………………………8

2.2 North America (USA and Canada)…………...…………………………………12

2.3 Asia……………………………………………………………………………....15

SECTION 3: FACTORS AND INCENTIVES FAVOURING THE USE OF ESG PRACTICES……………………………………………………………………………...19

SECTION 4: LIMITATIONS AND CONTROVERSIES ABOUT THE UTILITY AND EFFICIENCY OF ESG AGENDA………………………………………………………….24

CONCLUSION…………………………………………………………………………...31

REFERENCES…………………………………………………………………………...33

LIST OF FIGURES

Figure 1: Country ESG Ranking Map as of 2020……………………………………………...8
Figure 2: Annual European Sustainable Fund Flows (EUR billion)…………………………..9
Figure 3: Indicators of Agree/Disagree choices for each statement………………………….21

INTRODUCTION

Environmental, social and governance concerns, widely known as ESG, affect worldwide societies, none excluded. Recently, besides investors' interest, governments, policymakers and companies include these issues in their regulatory frameworks and business agenda, in the effort of positively impacting the local regions and the world, in general, while pursuing their profit maximisation. It goes without saying that world faces climate change at such a noticeable degree for the first time in history. Social issues influence people's lives at most of the countries, if not at all, and have raised a lot of controversies. Governance factor plays a significant role at firm's decisions, practices and performance, board's diversity and independence is much needed and many firm owners have realised this fact. Therefore, considering all these issues affecting the majority of the world's components, an active response by the side of society's stakeholders is the only choice. In the process of pursuing sustainable development, ESG is an assessing instrument to provide help to the responsible and willing parties in order to let them accomplish this transition. Integrating ESG in investing, business models and regulations may lead all the parties involved to change their attitude "to do well" into "to do well by doing good". After all, following this path, it seems that there are hidden benefits that can seem advantageous not only to the directly affected ones but also to those that are influenced indirectly. However, even if the effort of a transition to sustainability can be traced many years ago, it is observed that there is not an equal and balanced endeavour across the world's continents. To be more specific, even across the same continent, efforts differ and differences can be spotted if each country is evaluated individually. There are some countries that pursue the sustainability goal more than some others and, also, some that scarcely try. It is notable, though, that there are countries which reconsidered their initial behaviour towards ESG issues and have taken a more active role in order to contribute to the need for a more sustainable world. To continue with, there are certain factors and incentives so as to motivate society's parties to integrate ESG in their decision-making process and daily practices. These factors differ among each other and may have various interpretations. For instance, other factors relate to financial outcomes, others are influenced by regional needs and beliefs, others have to do with the attempt of creating a firm's attractive image towards the investing community while there are, also, factors

associated with forward-looking the world's needs and being ahead of laws and regulations. Of course, when debating such a serious and impactful topic, the individual factors leading to responsibility and personal alertness could not be omitted. Nonetheless, like all the debates and existing issues, a considerable number of people who have raised controversies towards the efficiency of integrating ESG and show scepticism about its sincere utility and purpose. The base of the controversy is, on the one hand, stable and none could doubt its existence, but, on the other hand, there are substantial measures to be taken which can eliminate the doubts and attract people in order to integrate ESG in their practices. In other words, even if the scepticism towards ESG is explicable and comprehensible, there is much space for improvement and, if taken into account and act accordingly, the full and proper integration of ESG is only a matter of time.

This study aims to gather information related to ESG drawn out of the existing literature, including a broad number of scientific reviews and researches, combine them and give to the readers a coherent and apprehensible view to one of the most needed and hottest trends in the markets. The structure of the study has as follows:

In Section 1, this study seeks to explain the theoretical background of ESG. Moreover, it presents the characteristics comprising ESG, making a separate, brief report on each component. Through this section, the reader will be able to understand the meaning and utility of ESG after introducing its facts of major importance and get to know the existing conditions at which ESG trend and its supporters struggle to accomplish their mission, both for the viability of humanity and the investors' portfolios.

In Section 2, the goal is to present and explain to the readers how ESG managed to emerge and become a hot trend, appealing a lot of ESG enthusiasts. In the beginning, a short summary tracing the roots of corporate sustainability and responsible investing will give some explanations about how humanity and investing community managed to reach to the point that ESG was created and acknowledged. Later on, a description of three continents' development on the ESG issues (Europe, North America and Asia) will make it possible for the readers to compare each continent's progress on this matter and anticipate the differences at the local regions' beliefs.

In Section 3, the readers are going to recognise the factors and the motives which drive the community's stakeholders, such as governments, enterprises, customers, investors etc. being committed to ESG principles and practices. Alternatively speaking, this section aims to explain the reasons why ESG is beneficial and which incentives lead ESG supporters to hold on their commitment and fight to draw the best out of this matter.

In Section 4, the limitations and the controversial part of ESG principles and practices will be presented on behalf of a spherical analysis. Having analysed the theoretical background, the historical approach and development and the factors favouring the use of ESG, a presentation of the reasons which arise scepticism and doubts towards ESG is going to provide an holistic view to the readers.

This study is expected to present a complete, theoretical view of ESG issues in the investing process and business' activity, from its beginning until recently, comprising a broad number of researches and studies on the topic with the most recent and up-to-date orientation. Furthermore, it goes beyond the support and, also, presents the opposite side contributing to project all the limitations and obstacles which prevent ESG investing from outperforming the rest of investing approaches and become a dominant player in the markets. Therefore, it is useful for practitioners in order to anticipate the real meaning and impact of ESG matters, for academics in order to extend the existing literature and fill in the gaps for further development and for policymakers and ESG rating agencies in order to correct the existing rating system's flaws, enhance the efficiency of their ratings and benefit from these activities, while gaining benefits also for the community's stakeholders.

SECTION 1
THEORETICAL BACKGROUND AND CHARACTERISTICS OF ESG

To begin with, environmental, social and governance (ESG) issues draw society's and, mainly, investors' attention globally more and more as the time goes by. However, it is an undeniable fact that most people, mutual funds' managers and raters included, misunderstand its meaning and utility as it can be characterized as vague. In this section, I am going to attempt to clarify these parts and simplify this complexity.

Recently, ESG ratings gain more power than ever as the world makes an effort to transit from a dead-end to sustainability. Tens of trillions of dollars are invested based on ESG every year and the amount is increasing each year. In other words, investors seek ways in order to invest in companies and their criteria are generated by companies' environmental, social and governance impact, beyond profit. Exhausted by solely chasing the money, their

goal is to achieve profit in compliance with investing in “green” companies, which are aware of their responsibility towards environment and society, in general. The term “ESG investing” can also be found as green, responsible, sustainable or ethical investing. However, the usage of ESG term can be divided into two prospects. Prospect 1 is adjusted to collateral benefits, which means that shareholders and management involve in the board’s decisions so as to maintain company’s morality and ethics. Prospect 2 has to do with profit-seeking moves, is implemented by active investors and both investment and divestment processes are crucial. To become more clear, in this prospect, investors feel the necessity to draw their money back from companies that are harmful to one of the ESG factors and place them, with responsible certainty, in companies which attempt to leave a remarkable trace in world’s industries, by gaining profit for their shareholders, their personnel and society (Schanzenbach, Max Matthew and Sitkoff, Robert H., 2020).

All the above mentioned, it is clear that environmental, social and governance factors influence business’ activities through the investment and decision making processes. Companies face limits and barriers on behalf of both fair governance and long-term, sustainable growth, favouring society in total (Ting-Ting Li, Kai Wang, Toshiyuki Sueyoshi and Derek D. Wang, 2021).

Nevertheless, it is worth mentioning that these obstacles are not unprecedented. Each country, each region holds its regulations and laws which may restrict companies from “bad” behaviours. On the other side, companies find ways to disobey these rules so as to achieve their goals and increase their profits. There are plenty of examples in world’s history at which companies managed to overcome the law and the disaster that followed was, finally, without precedent. Pedro Matos highlights some examples in his book: “2001 Enron accounting fraud, 2010 Deepwater Horizon oil spill, 2015 Volkswagen emissions test cheating, 2018 Facebook data privacy scandal.” Consequently, it can be easily understood that ESG is an economic tool made to fix the companies’ externalities from the inside, in contrast with laws and regulations that emphasize on the outside and aim the external control. This model’s goal is moderated on the philosophy of “doing well by doing good” so as to achieve long-term value and attain the acceptance of the market for the firm in compliance with benefiting all stakeholders (shareholders, customers, suppliers, employees and society) (Pedro Matos, 2020).

In favour of a better view to world’s undoubted concerns, let’s take a closer view to ESG factors one by one associated with the analysis and management of portfolios, including examples. Firstly, E refers to environmental issues. It goes without saying that people are exposed to such a climate change for the first time in history. The temperature goes on, forests

and mountains severe from enormous wildfires during the hot periods, the icebergs melt and water's level may not increase noticeably but it does significantly. Because of this situation, it is not unfair to claim that environmental issues have gathered the most of the attention at the development of portfolios based on ESG, as this factor seems to be the most upcoming threat among the others (John Hill,2020). Next, the S refers to social issues. It is connected with the safety and health of employees, their rights, the quality of customers' and products' duty, the participation of the firm related to charity and donations. Last but not least, G refers to governance concerns. These concerns include potential frauds of the firm's management, its compensation policy, the level of independency and diversity among the members of the board and the respect given to the rights of the shareholders (Pedro Matos, 2020). Therefore, assessing a firm's efficiency around these three complicated factors is not only difficult but also confusing, especially when ESG raters' subjectivity play an important role and ratings differ among each other. (I am going to expatiate the latter sentence in section 4).

At this point, while talking about firms, ESG and profit, it is time to incorporate the risk factor in this article. Stocks' and portfolios' returns are directly connected to risk. In the past, investors erroneously tended to believe that ESG factors had nothing to do with returns and profits. After several stocks' falls or even collapses, due to companies' mischievous decisions and actions, this fact has been totally reversed. That is the reason why, recently, ESG factors play a significant role at investors' decisions on building a portfolio. We are at a historical point when information moves and grows rapidly, making it impossible for a "sneaky" company to hide. As a consequence, investors and fund managers think twice before placing their money at companies, as they also have to assess their performance towards ESG except profit opportunities. For this, a huge allocation of money takes places, with investments towards ESG-friendly firms and divestments or negative screening on the opposite side (Monica Billio et al.,2020).

A hot spot about ESG investing, though, are the reasons and the ways the related data is used by investors. As mentioned above, the baffling and indefinite term of ESG is not fully comprehensible not only by the investors but also the companies, the fund managers and the analysts. As this term integrates three different and indirectly correlated factors, one can easily be driven to confusion (Kuzmina J. and Marina Lindemane, 2017).

A survey shows that fund managers are driven, mainly, by their subjectivity on a company's behaviour about ESG issues during the decision making process about investments. It also shows that their incentive is to averse short-term risk rather than longterm, as the literature supports (Justyna Przychodzen et al., 2016).

On the contrary, another survey performs different results. It states that a significant number of managers (ESG and non-ESG) contain ESG factors in the investment process. In addition, their analysis' emphasis steps on long-term economic value and firm's performance, weighing the respective management the most. In particular, they tend to believe that the governing factor among the three is governance methods and the nature of the management (Emiel van Duuren and Auke Plantinga, 2015).

A third survey shows that results may be mixed and each country shows alternative preferences. To be clear, it makes a comparison between UK and French managers upon their beliefs on ESG factors. On the one hand, UK managers believe that G factor is a corporation's commitment, environmental and social responsibility is demanded by shareholders and their beliefs on E, S and corporate G is more balanced than those of French. On the other hand, French managers show opposing priorities, as E and S are both a top duty for their companies, corporate governance is demanded by shareholders and they tend to prioritise environmental and social issues. After all, managers of both countries agree that management of investment risks are enhanced by environmental and social responsibility while, at the same time, long-term value is predominantly driven by corporate governance (Ali Murad Syed, 2017).

The output of the above mentioned surveys denotes that investors' opinion on ESG differs from investor to investor and this is due to the vague and complex interpretation of the term leading to subjectivity playing an important role in the investment process.

To sum up, ESG's utility is clear that can reform society's fixed standards and accelerate the turn to a sustainable world, leaving behind the mere pursuit for shareholders' profit while giving significance to other priorities, such as protection of the environment, satisfaction and care of society and broadly-accepted governance methods in compliance with firm's long-term value.

SECTION 2
ESG HISTORICAL APPROACH AND DEVELOPMENT

Having analysed ESG factors, their importance to humanity and portfolios' viability, I would like to present how we managed to reach at that point of history.

First of all, ESG investing holds its roots from Corporate Social Responsibility (CSR) and Socially Responsible Investing (SRI). The birth of CSR can be traced back to 1930s due to the differentiation between ownership and management. A decade later, institutions began to comprehend the notion that profit maximization may be on the top of every business' to-do-list, but their actions had to be monitored internally as they could affect their image and influence their profitability. Around 1950, CSR was given its final shape and much space for ESG was created, even if it was taken advantage of post half a century (Iain MacNeil and Irene-Marié Esser, 2021).

The turning point that gave much space for establishment to ESG happened in the 1980s when the SRI supporters began "a divestment campaign from South Africa's apartheid regime", as Max M. Schanzenbach and Robert H. Sitkoff (2020) stated in their special report about ESG investing. Thereafter, focusing on the need for sustainability, various voluntary actions took place in order to enhance the opportunities of activating ESG investing, such as the launch of United Nations Global Compact and ESG's remarkable reference at its "Who Cares Wins" document which stated that ESG had to be considered by financial analysts and investing community (Iain MacNeil and Irene-Marie Esser, 2021).

Both terms used until then emphasised either on the moral or ethical investing. In the late 1990s and early 2000s, SRI enthusiasts supported the integration of corporate governance as an extra factor to be taken into account. The G factor inserted ESG in companies' accounting standards and investors' analysis acquired an information which would not be overlooked (Max M. Schanzenbach, Rober H. Sitkoff, 2020). For instance, pro-ESG investors claimed that divesting from companies which are harmful to the environment, besides avoiding supporting problems in support of the local communities, would, as well, positively influence their portfolios, as risk-adjusted returns would improve since there may be a gap between the markets and the regulations which could probably cause a downfall on their returns.

On the other side, John Hill mentions in his book that companies which follow ESG-based operation strategies have the potential to averse risks, being in coordination with the regulation and, as a result, increase shareholders'/firm's value and attain sustainable development for both the firm and the society.

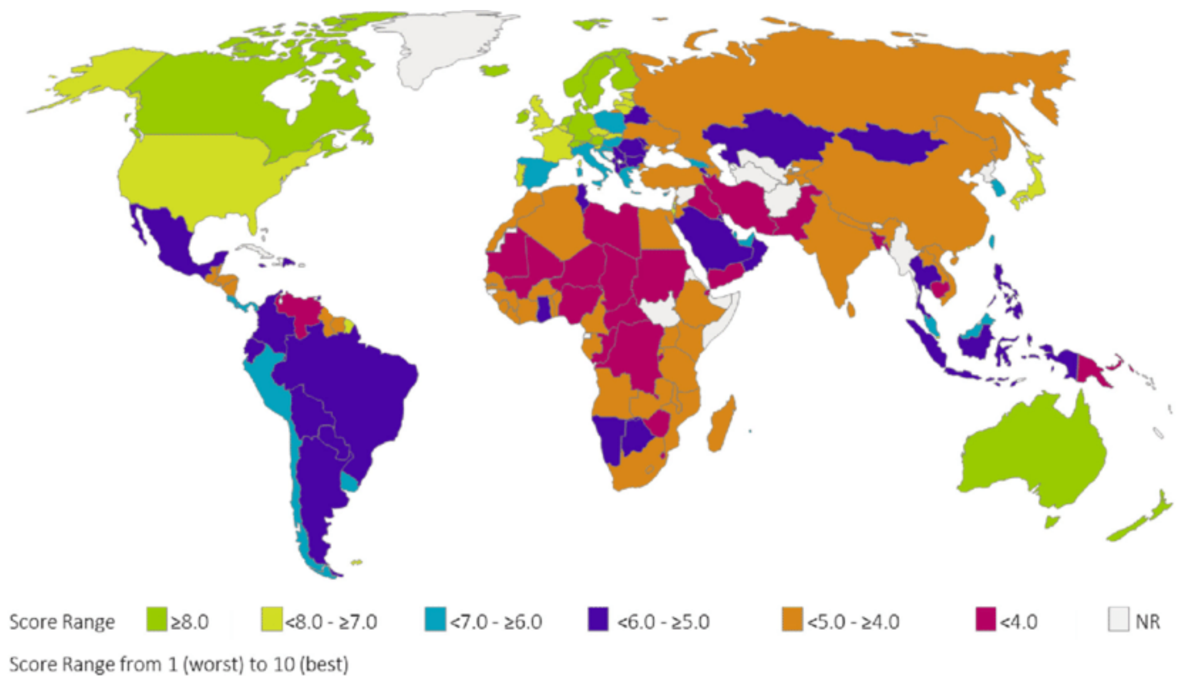

Figure 1: "Country ESG Ranking Map as of 2020.", Source: RobecoSAM

Having described briefly the evolution of ESG from the beginning, let's specify its worldwide development, reviewing three continents' progress, separately, on this matter. The review is noteworthy since companies' geographical location play a crucial role at their beliefs and actions on ESG investing, as mentioned before. I would like to start from Europe, which, according to research, seems to be ahead of the others related to ESG investing, following the rapidly upcoming North America and, then, Asia.

2.1 Europe

To start with, Europe seemingly has taken an active role on ESG's development. European Union regulated that EU firms, as well as non-EU firms which operate in Europe, are obliged to publish their ESG data and risks (Non-Financial Reporting Directive) in order to achieve transparency on the matter. Moreover, this way can achieve regulatory changes in non-EU countries' frameworks in favour of ESG and its disclosure. ESG disclosure regulation is capable of attracting both investors' interest and companies' attention on this issue, as the attractive latter ones would be preferred by investors. In addition, corporates meet an auditing obstacle which is hard to bypass and, in reality, is not wise to override, as investors would invest elsewhere (Redondo Alamillos R. and de Mariz F., 2022).

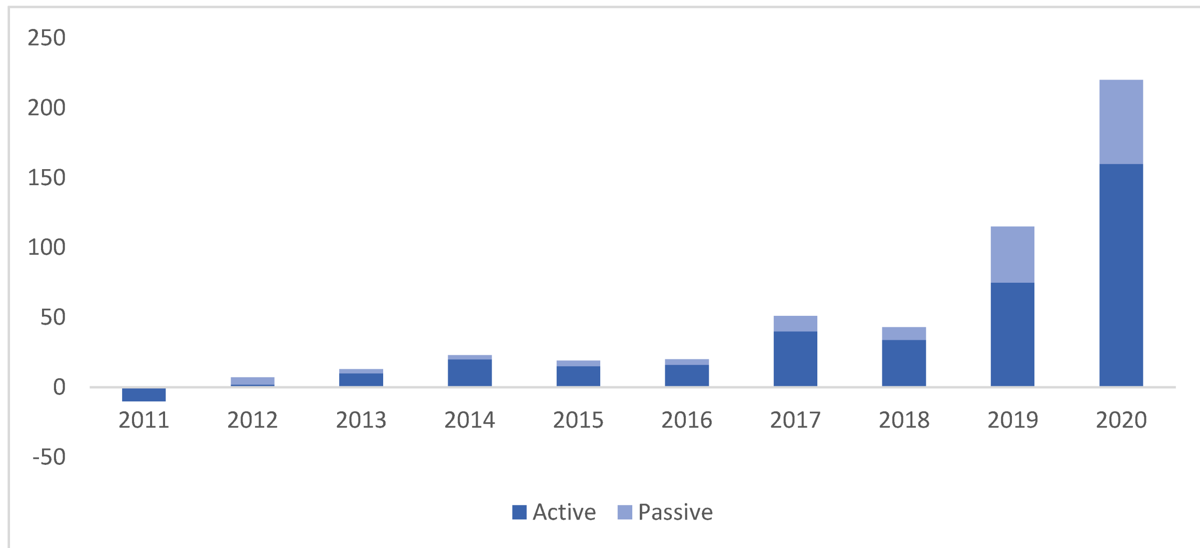

Figure 2: "Annual European Sustainable Fund Flows (EUR billion)." Source: Redondo Alamillos R. and de Mariz F., 2022

Firms which integrate non-financial information in their financial reports give the opportunity to their investors to have a clearer view on their decision making process and through transparency, they achieve to be trustworthy towards them. Information plays a dominant role at investors' decisions so investors are keen on them and the more they get informed, the better for them. Though, how does transparency in Europe correlate with ESG investing, firm's value growth and investors' success? Transparency is found to be beneficial to firm with lower ESG scores and environmental-related industries. The relationship between ESG data disclosure and cost of debt is also positive for the firm, meaning that as the firm becomes more transparent, the cost of debt is getting lower, but this relationship weakens while the firm performs better in the terms of ESG (Gerwanski J., 2020). What's more, it is noteworthy that isolating non-financial data from the financial report has a less positive impact on the firm than integrating this data in the report. Thus, firms should be aware of that fact and publish an integrated report as investors react positively to such behaviours. Without occurring extra costs, firms are able to enhance their market value by acting so and attract investors, as they manage to translate the firms' ESG practices in a comprehensible way and both sides gain benefits (Buallay A. et al., 2020).

A factor which substantially influences ESG transparency is the board in combination with its characteristics. By the time firms and shareholders have realised the importance of the boards' characteristics ruling a firm, an unprecedented reality has given birth. Data quality is dependent on the directors' decisions and, as a consequence, firms have become more cautious. It has been observed that board's level of activity, size and male/female proportion

as well as the existence of non-executive directors have a positive impact on the quality of the reports. Particularly, active and bigger in size (without exaggerations) boards of directors consisting of a considerable number of female and non-executive directors tend to disclose ESG-themed information in accordance with high quality reporting (Chouaibi S. et al., 2021). Apart from ESG disclosure, the presence of women in the boards has countable benefits, such as better communication among the directors, non-exclusion of any ESG factor at the practices and the reports or decision-making processes and satisfaction of all the involving parties' needs, with the aim to achieve the sustainable development of the firm and the accountability by the stakeholders and the society (Nicolo G. et al., 2022). Moreover, boards of directors committed to follow ESG practices and provide the respective data to investors manage to lead the firms to achieving improvement at their financial performance (Rossi M. et al., 2021).

But what about the firms' performance and value creation related to ESG scores? A survey on companies listed in STOXX Europe ESG Leaders 50 shows that these companies' (except automobiles) volatility is smaller than the market's, which means that they may manage to have lower returns in comparison with the market's overall, but, at the same time, they do so with lower risk. What's more, ESG good-performance companies seem to be superior in both ROA (return on assets) and ROE (return on equity) ratios to the rest of the companies. Nonetheless, debt to equity ratio is found to be non-correlated to ESG performance, as the results vary. The latter part implies that there is a long way to go until the full integration of ESG in investors' and corporates' everyday life (Phoebe Koundouri et. al, 2022).

Another survey based on European ESG-friendly companies and the Kohonen neural network shows various interesting findings. First of all, it highlights that ESG performance is competitive in Europe, and, as a result, competition forces companies to perform better for their own good. Then, the survey states that investors' and stakeholders' ESG needs are of great significance for the companies and labels European market as mature related to ESG issues, prioritising environmental issues, followed by social matters, and, finally, corporate governance. Additionally, it shows that the latter issue is the one most integrated by investors but predicts that environmental issues are probable of gaining much more attention in the near future, being the leading factor. Last but not the least, a remarkable finding is that European companies seem to be ready for a sustainability-oriented change and their drive is focused on the future need of society, realising the responsibility which lies upon them (Iamandi Irina, 2019).

A third survey based on European and Turkish portfolios comes in accordance with the first survey mentioned. Specifically, it results in lower volatility levels for Top ESG portfolios compared to market's excess return. In other words, such portfolios do not outperform market. However, by adding extra factors (risks) in the analysis, like size and value, it results in lowering systematic risk exposure (Zehir Emre and Aybars Asli, 2020).

The results of a broad study based on European public companies' ESG and their financial performance are worth mentioning and quite interesting. The exceptional element of this study is that it excludes the majority of the companies and concentrates on the public ones, including a notable number of them. Briefly, the respective study focused on firms' ROA and ROE and whether these two financial indicators can be predicted or if they are affected by ESG performance. It concludes that prediction of both of them had extraordinary outcomes. As well, ESG factors affect the indicators' performance and there is a positive relationship between ESG and these two indicators (De Lucia C., Pazienza P., Bartlett M., 2020).

Besides companies, a stabilising factor for each country/continent and a dominant "player" in the markets are, undoubtedly, the banks. Europe has started an unprecedented effort for the transition to a more sustainable world. Financial regulations and laws have been on debate and, on 31 January 2018, the final report was released by a European Commission-made high-level expert group. The main purpose of this report aimed at classifying industrial activities criteria and, principally, the improvement of transparency and comparability of ESG data about listed-companies, bank sector included, by investors (Bruno M. and Lagasio V., 2021). An interesting study accomplished by Amina Buallay (2019) shows that banks' ESG information disclosure differs from country to country in Europe. Simply speaking, environmental and social factors seem to be more transparent in low GDP and governance countries. On the contrary, the governance factor appears to be more disclosed in high GDP and governance countries. Another significant result on this analysis is that although ESG, in whole, seems to affect positively banks' performance, when dividing E,S and G, the outcome is different. Environmental data affect positively ROE and Tobin's Q (TQ), when corporate governance information have a negative impact on ROE and ROA. Besides, revealing social responsibility issues stand against all three variables mentioned. (Amina Buallay, 2019).

Banks' performance, related to ESG, has raised controversies over a variety of researches. It is stated that performance may relate positively with value-based management, though, banks cannot depend on ESG performance desiring short-term profitability. That's the reason why bank authorities focus on supervision rather than direct implementation of

ESG-based operational banking (La Torre M. et al., 2021). Nevertheless, banks tend to reward companies' ESG performance and disclosure -the relationship between the latter two seems unclear and the coordination of it has to be examined. Companies gain benefits from disclosing ESG data and performing well on this domain and their reward is a lower cost of debt by lending institutions. Therefore, according to this conduct, banks may not be able to move immediately to sustainable development, but they provide companies with benefits to do so, in favour of incorporating an ESG-based model of function (Yasser Eliwa et al., 2021).

In contrast with short-term orientation, long-term oriented European banks' ESG disclosure and performance shows up beneficial. Banks committed to disclose their ESG opportunities and risks and operation in support of their ESG scores is able to increase their value and flexibility leading to a more stable bank system. The longer a bank insists on this commitment, the more benefits are acquired (Laura Chiaramonte et al., 2022). All the above mentioned, it is clear that ESG practices lead to better results when they are followed at a long-term period of time. So, in order to manage to reach sustainability, European banks, playing a catalyst role in the financial markets, should move on to the next step, integrating ESG practices in everyday's life.

2.2 North America (USA and Canada)

While transition to sustainability is considered to be a new life model, at the same time environmental, social and governance issues attract worldwide attention and investors' money. Europe has been ahead on the run, as regulatory frameworks' changes and companies' beliefs in support of ESG operating are beginning to overwhelm the markets. However, the dynamic market of North America, including the United States of America and Canada, could not be omitted. Especially when financial markets at this region are robust, the involvement of ESG scores in investors' decision-making process are going to play a significant role and, probably, be a "game-changer" with a global impact.

Initially, the European Union's Non-Financial Reporting Directive is implemented in the borders of the Union. Thus, North American parties are out of its control and the disclosure of their ESG practices lies upon their will. A comparison between European Union and North America on this matter and its effects is crucial. After the implementation of this

regulation, it is found that the affected European part has considerably increased the disclosure of environmental, social and governance scores of the firms compared to the non affected North American part. Moreover, investors seem to react in a positive way to this improved informing they get by the Directive. Especially, the NFDR has taken action on the allocation of the investors' funds on the way to a more sustainable and responsible world. Therefore, the regulatory intervention has made a huge impact on firms being transparent and investors' enhanced informing and, as proved, North America should consider implementing ESG disclosure on the reports in order to make steps forward to sustainability (Martin G. Becker et al., 2022).

In North America, the governance factor has the greatest impact on a company's financial performance among the three. Investors' attention seems to be drawn, mainly, by the governance issue, weighing the management of the company more than any other dimension of the ESG. Although social and environmental matters are still to be examined and there is a long way to go in order to be fully integrated, the aggregate ESG score is connected to businesses' function and image in a positive way. Consequently, the higher the firm's ESG score, the more stable the company is in terms of financial balance. In other words, the development of a firm in a sustainable way manages to keep its financial performance stabilised, leading to enlargement of the company and the successive improvement of its ESG rating (Lisin A. et al., 2022).

Based on the governance fact, an addressing study implemented in the USA shows some worth-mentioning findings. ESG disclosure is greater due to the presence of female managers at the firms' boards. Nevertheless, their presence has to be quantifiable and significant, as, otherwise, phenomena of exclusion and silence have been observed. When women coexist in the board, they tend to support each other when they agree and, as an ESG-based consequence, their company is driven to be committed to its ESG principles and its disclosure follows up (Manita R. et al., 2018). Analogous to these results, gender diversity in firms' boards showed positive results in terms of ethics and financial benefits (Ouni Z. et al., 2020).

However, investors act adversely to provided ESG news in the field of stock markets. The interpretation of ESG news seems to have a reverse result on investors' financial decisions. That means, bad news are related with higher returns in stocks, while the good ones cause price depreciation. An explanation given for this matter is based on the investment view of North Americans who have the tendency to believe that pursuing sustainability through

investing aggrandises the costs, highlighting those of agency and the following frustration caused (de Vincentiis P., 2022).

The way U.S. asset managers view ESG in relation with financial performance is similar to investors'. It is stated that asset managers from this region underestimate ESG's current powers on enhancing financial performance. Furthermore, they are inclined to believe that its impact is not of major importance based on the investment decision making process (Emiel van Duuren et al., 2016). Hence, despite the large amounts that contribute to the sustainability transition process and the ESG, this gap raises controversies over the investing world, but, simultaneously, proves that there is still much room for improvement.

In the aspect of companies, things look a bit different. According to a research based on S&P500 listed companies, the aggregate ESG transparency proved to be in compliance and have a positive correlation with ROE, ROA and TQ. Yet, dividing ESG into its fundamentals, the results are mixed. Which means, environmental and social concerns result in lowering both ROE and ROA but enhance the firm's performance in the market through TQ. Considering the corporate governance pillar, this study reaches the conclusion that it positively affects ROA and TQ but its effects are negative concerning the ROE part (Alareeni B.A. and Hamdan A., 2020). Additionally, listed companies in Canada meet the same situation, the efficiency level of investment is connected in a positive way with the company's level of ESG disclosure. Providing stakeholders with this kind of data helps them to achieve a better understanding of firm's values and ethics, decreasing the distance between the consisting parties (Hammami A. and Hendijani Zadeh M., 2020). It is also remarkable to mention that firms' ESG performance is associated with firms' market durability. Performing better in ESG issues and limiting the risks attract investors, facilitating external funding and leading to enhanced probabilities of firms' growth. Thus, ESG performance contributes to the firm being durable, proven that these two elements are positively related (Fafaliou et al, 2022). All the above included in calculation, the opportunity of integrating all factors into one and the acknowledgement of each factor separately is majorly significant for the companies and the way they coordinate with each factor can be influential as for attracting investors' assets and increasing the firm's/shareholders' value.

Dramatic changes have been observed in the American banking sector. Recently, regulatory modifications in favour of sustainability have been implemented causing the banks to reconsider their ESG approach and, as a result, ESG reporting has made a tremendous progress. Despite the fact that American banking sector has suffered from various ESG related issues, on behalf of correcting mistakes of the past, ESG has escalated in the banks'

priority list and follows a top-management to employees direction (Murawski T., 2018). Environmental and governance issues are associated positively with banks' market performance through TQ, which results in shareholders' value creation. On the contrary, the social dimension seems to influence it negatively, which leads to opposite results. For instance, climate related risks and governance concerns, such as efficient management which stands as transparent and trustworthy, can reduce the agency costs and fulfil shareholders' needs. As well, the social dimension which refers to the quality and safety of products and services, human rights, equality in opportunities etc. negatively affect the banks' market performance, decreasing the shareholders' value and increasing the obstacles for growth opportunities (Miralles-Quirós M.M. et al., 2019). At this point, let alone the existing conditions, there is some evidence which implies that banks could improve their ESG performance. Board characteristics play a significant role and, as revealed, can affect positively the banking sector. Firstly, gender diversity is crucial and there should be a balance between male and female directors consisting the boards and, so, the board can be increased by adding women. Then, the board's size of a bank and its level of commitment to manage environmental, social and governance issues are able to enhance bank's ESG performance and create value growth. Last but not the least, an independent board does not seem to affect positively the performance of the bank towards ESG concerns (Birindelli G. et al., 2018).

In conclusion, North America is probably the dominant player in the financial markets worldwide. Sustainability and social responsibility are the pathways to a "healthy" development for our planet and that's the reason why concerns on this matter have been attenuated lately. So, North America ought to take a more active role and lead the world to the next step in support of the society and the environment.

2.3 Asia

The transition to sustainability at the asian continent is not considered to be easy. The realisation that most asian countries' carbon emission levels are high -even if, recently, those levels have been improved- still, the problem lies upon the surface, as carbon emissions remain significantly higher than Europe's or America's. Moreover, it is an undeniable fact that the consisting countries of asian continent seem unprepared to proceed to a sustainable

development, presenting a lack of economic power, social cohesion and governance capability. However, certain countries, such as Singapore and China, have taken initiatives in cooperation with non-asian countries in order to achieve a global shift to sustainability. For example, a proportion of the founding members of both "Central Banks and Supervisors Network for Greening the Financial System" and "International Network of Financial Centre for Sustainability" originate from Asia. Also, asian participation in Sustainable Banking Network is broad, as it consists of 13 out of 32 countries. These initiatives have been followed up by other asian countries and Asia has been on the trail for moving to a more sustainable world (Volz U., 2018). Undoubtedly, Asia is one of the most rapidly upcoming markets in the world and its contribution to the transition to sustainability is much needed and essential. Asian governments have realised the importance of this matter and, for this reason, a huge allocation of assets has occurred, driven by governmental factors, aiming to change direction from pursuing profit maximisation and turn to maximisation of society's components' value (Tolliver C. et al., 2021).

An element which has raised controversies over both the academic and the professional world is the level of ESG data disclosure and its impact. It has been noticed that transparent ESG data and scores are positively related to ROA, financial market performance and firm's efficiency, even if there have been some reports that ESG disclosure worked reversely or had no effect (Tolliver C. et al.,2021). In the need of keeping a positive image towards society and stakeholders, asian listed companies from the public sector tend to disclose their ESG information. Except from being pressured by society's components and media coverage, their goal is to be accountable for their stakeholders' morality and prove that they are willing to manage the confronted ESG risks by being active and socially responsible (Abdul Rahman R. and Alsayegh M.F., 2021). Therefore, it is comprehensible that Asian continent and, specifically, the financial sector has realised the significance of ESG issues and the line connecting them, showing determination for an active response to this matter.

A debatable question is whether each company's board characteristics play an important role towards ESG disclosure and practices or not. To begin with, good and liable top management due to ESG concerns seems to be positively connected with stakeholders' trust and the approval by society and has been observed that as the level of ESG transparency and efficiency grows, investors are appealed, both reputation and competitiveness are boosted and the firm operates in an efficient way (Tarmuji Indarawati et al., 2016). Concerning solely the environment, a survey based on the East Asian manufacturing firms' board characteristics shows that, up to a point, the bigger the board, the better the firm performs in environmental

terms. It continues stating that after that point, keeping growing the board's team begins to have negative results, as environmental matters start to be neglected. Another highlight of the survey is that managers' independency in the boards play a significant role and has a positive influence on firms' performance towards the environmental sector (Nguyen L.-T. and Thanh C.-L., 2021). Board characteristics also have impact on the social dimension. Evidently, firm's financial performance is oppositely related to CEO turnover but this relationship can be bridged by corporate social responsibility. Moreover, the cooperation between women and men in the firm's board enables the solvency of problems, focusing on various and alternative points of view and weighing a lot the dimension of social responsibility (René P. Orij et al., 2021). The aftermath of this part is that asian companies should focus on the choice of board they want to rely on, as phenomenally small choices can lead to great results both internal (in the aspect of the company) and external (society, in general).

In the matter of listed -in the asian capital market- firms' environmental, social and corporate governance performance in comparison with their value, research indicates that their relationship is both significant and positive. First of all, not only the aggregate ESG score of a company is connected to its value positively but also their relationship is statistically significant. In other words, the better a firm performs towards ESG issues, the more the firm enables for its growth, attracting investors and acting in the interests of its shareholders. In addition, subdividing ESG into its subcomponents (Environmental, Social, Governance), the findings result in the same conditions. Specifically, companies' performance towards environmental issues, social matters, and corporate governance concerns separately seems to reach a conclusion at which all three components relate, repeatedly, with firms' value in a positive and significant way. Which means, firms that manage to handle E, S and G risks take advantage of these situations and are able to grow their value (Melinda A. and Wadrhani R., 2020). In fact, this relationship also works vice versa. Financial development is connected to ESG scores in a totally positive way and the same time companies work on their transparency and accountability levels, their achievement is being trusted in the long-term by investors, enriching their portfolios and growing, respectively, their ESG scores (Ng TH et al., 2020).

Considering the stock value of asian companies compared to ESG, stock value is influenced in a different way. Despite the fact that environmental and corporate governance dimensions do not show a strong and significant impact on stock value, social matters seem to affect it. In the asian market, investors tend to weigh the social dimension much more than the others and its weighted role depicts its power in the stock value. According to investors'

decisions, a firm which performs well in the social issues, in contrast with environmental and governance, attracts their attention and, due subsequence, their investments. Moreover, the aggregate ESG score follows up the environmental and governance results, weakening the social factor and the statistical significance when E, S and G are taken into account equally. However, when they are considered “properly”, in a more holistic approach, investors seem to be attracted by high ESG scores, increasing the stock value (Budsaratagoon P. and Jitmaneeroj B., 2021).

The banking sector in Asia could not be excluded from the analysis. The asian banking sector aspires of achieving the goal of outperforming the banks of the rest of the world and, as a consequence, sustainability is a crucial and stabilising factor which has to be examined. A research, dividing Asia into developed and developing economies, results in notable and worthy conclusions. Firstly, the environmental factor in developed countries is in favour of banks’ cost efficiency, influencing it positively. Secondly, the social and governance dimensions had alternative results in developed and developing countries. In the first list, the social and governance factors reduced the cost efficiency while, in the second list, it worked reversely. Therefore, it goes without saying that the environmental factor was the only one favouring the cost efficiency of the banks from Asia’s developed economies. As an overall, ESG practices seem to help banks in developing Asia come closer to society, increasing their cost efficiency and creating value while being sustainable. On the other side, developed asian banks were led to same or lower revenues due to ESG costs (Chang H.-Y. et al., 2021). Another research, which includes data gathered from Egypt and Morocco and from other 7 asian countries, goes beyond the above mentioned research. One of the findings implies that less profitable banks and bigger banks tend to be more transparent towards ESG. Also, big banks’ ESG, with greater concern on the social dimension, disclosure rate seems to be affect ROA negatively, in the effort of hiding their weaknesses and shedding light on their social performance. Lastly, the corruption level of the country from which the bank originates is negatively associated with the banks’ ESG performance. It is obvious that a corrupted country is not willing to engage with ESG practices leading to sustainable development, as ethics and morality are not a priority (El Khoury R. et al., 2021).

To end with, it is an undeniable fact that the asian is a continent full of capabilities. Yet, governments/policymakers, companies and banks seem to work in different directions, aiming alternative goals and envisioning the future in a totally different way. Therefore, it is high time for the asian continent to regroup, prioritise sustainable development and cooperate

in the terms of ESG issues, targeting not only environmental, social and governing but also financial success.

SECTION 3
FACTORS AND INCENTIVES FAVOURING THE USE OF ESG PRACTICES

Nowadays, it is observable that the world walks the road towards sustainability and all the efforts have been gathered in support of this transition. Policymakers implement new regulations, companies attempt to prioritise society's and stakeholders' needs besides profit maximisation, investors reallocate their capitals drawing investments back from "harmful" firms and positioning them on "behave-well" companies. Information is moving constantly and rapidly and absorbing all the data given is an unstoppable pursuit. In fact, which are the factors and the incentives driving the investing community and the companies to insist on using ESG practices and how ESG agenda can be beneficial to the world?

Until recently, companies focused on improving continuously their financial performance. Boards of directors and shareholders were keen on finding ways at which they would manage to increase the company's profitability and, as a result, create shareholder value. Nevertheless, the emerging importance of environmental and societal needs came to negate the previous norm. It is stated that integrating non-financial factors in firms' business tactics is proven to be beneficial for the stakeholders, without excluding and being in compliance with the financial performance. As a consequence, with the enhancement of financial condition observed by the lending institutions, enterprises are in the place to collaborate with these institutions under improved terms, as the accompanied risk to the firm is reduced (Bak I. et al., 2022). A research correlating ESG disclosure and cost of debt financing is distinctive and its findings confirm the above mentioned. It highlights the negative association of ESG transparency with the cost of debt financing. Alternatively speaking, it states that transparent companies to their ESG data gain benefits by the lending institutions and their premium could not be other than better lending terms (Raimo N. et al., 2021). Besides the lending sector, high ESG ratings also positively influence firms' market performance, through TQ, contributing to the firms' value growth. Furthermore, good ESG

ratings favour the firms by lowering their cost of capital and attracting responsible investors due to the acknowledged firms' ESG commitment (Woei Chyuan Wong et al., 2021). It is remarkable that ESG strengths are capable of positively impacting firm's value while ESG weaknesses tend to decrease it. This, standing alone, proves that companies should have the good will to take care of their ESG agenda and act responsibly (Ali Fatemi et al., 2018). Liquidity is also affected by ESG ranking. Firms, being available to be rated by external ESG raters, appear to have higher trading volumes than firms which are unranked. So, companies are able to gain liquidity benefits by trading markets as long as they hold an ESG rating and, at the same time, investors seem to appreciate and act accordingly to enhancements on such ratings (Ilze Zumente and Natalja Lace, 2021). Additionally, both systematic and idiosyncratic risks can be influenced by ESG. In particular, a company's systematic risk is positively affected by ESG as it has been observed that, except for lowering the cost of capital, higher assessments are accompanied. Regarding the latter risk, the idiosyncratic, commitment to ESG principles can contribute to the firms' being less exposed to tail risk and achieve higher profits (Guido Giese et al., 2019). Or even when a company is met with a shortfall in its financial performance, the company seeks ways through which it can manage to reverse the outcome. Rather than looking for other means of recovery, companies which decide to improve their ESG performance manage to have also a better financial performance. Alternatively speaking, ESG performance is positively related to the occurred shortfall, providing the company with an impactful strategy for financial reacquisition in addition with benefiting the society (Ranjan DasGupta, 2022). Thus, we are at a point of history when transparency is rewarded and when it comes to environmental and societal concerns, motivation and incentives are much needed for all the parties able to contribute to the transition to sustainability and general prosperity.

Specifying the analysis into the most recent dramatic period, the COVID-19 pandemic, the results show that the incentives for integrating ESG principles into the investment process are obvious. It is stated that funds which were committed to their ESG agenda managed to control their risk and returns much better than the low ESG funds. In addition, their speed of recovery from the external shock was considerable, depicting their endurance and showing that despite of the circumstances, they are able to monitor their performance. In fact, when in crisis, high ESG funds can play the role of a shield, reducing the financial contagion which occurs, favouring not only the socially aware investors but also those who are eager to "protect" their portfolios (Pisani F and Russo G., 2021).

To the asset managers' view, ESG ratings can take the role of an applicable and profitable tool in the investment process. Even though it appears to be that ESG ratings do not correlate ex-ante with stock returns, the same condition does not apply to ex-post association. Commonly, stocks which managed to achieve higher returns were connected with higher ESG scores. For this, asset managers in the effort of outperforming the market, could use these metrics in support of their portfolio construction and exclude all the stocks connected with low ESG scores. Moreover, ESG ratings and stock volatility have a negative relationship. In other words, good ESG-performing stocks showed lower volatility than the average. Again, asset managers in the effort of effective diversification in their portfolios could eliminate the aggregate risk by excluding all the stocks which were rated with a low ESG score and select the high-rated ones. Therefore, using ESG metrics, asset managers could manage to decrease the risk in their portfolios and outperform the average stocks at some periods. It is noteworthy that stocks related with high ESG scores tend to be in association with low volatility and vice versa (Indrani De and Clayman Michelle, 2015).

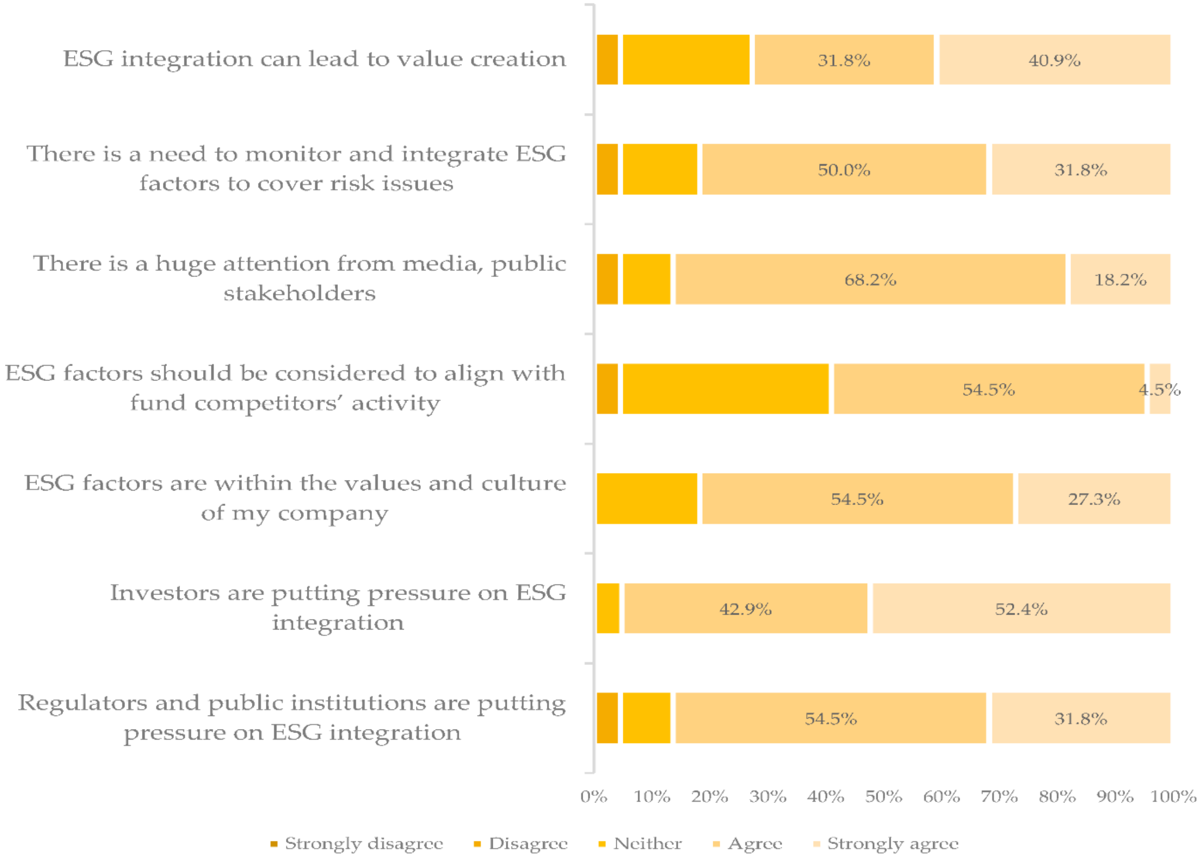

Figure 3: "Indicators of Agree/Disagree choices for each statement.", Source: Zaccone M.C. and Pedrini M. (2020)

Another driving factor for the asset managers in order to practise ESG principles, other than risk aversion, is herding. The meaning of the term "herding" is consisted of the

same practices that a great number of asset managers follow, due to absence of experience or confidence as for their implementing investing actions, through which they copy the decisions of the experienced and acknowledged ones, leaving behind the risk of taking initiatives on the decision making process and ending up on the “safe road”, which somebody else with high attributes and popular in the investing field has traced. Then, adopting the behaviour and the image of a caring asset manager can end up with new alliances and relationships with others on the same community, sharing indistinguishable ambitions and working on the same purpose, which does not seem to be other than environmental, social and governance issues’ effective management and sustainable welfare and development (Przychodzen J. et al., 2016).

Like all the aspects of life, ESG investing could not stay out of discussion when it comes to new life standards, such as the age of retirement and the duration of human life. Both of them have been expanded and the world has entered into a new cycle with new products, services and needs taking place. Many existing companies work for the benefit of these new aspects which have to do with healthcare, fitness, medicals etc. As a consequence, new opportunities are going to be born -if not already- and investing community should be aware of it, ready to support it and, in turn, gain the benefits of it. Profits will arise through these sectors and unprecedented development will follow up. A study made by Jekaterina Kuzmina and Marija Lindemane (2017), based on the above mentioned, concluded that such ESG investment outperformed the market and would provide the investors with notably higher profits than the average (Kuzmina J. and Lindemane M., 2017).

One of the most influential factors on which ESG performance depends is the geographic area at which it takes place. Different countries are consisted of different governments and policymakers with totally different perspectives and regulations about the environmental, social and governance issues. Accordingly, ESG factors are dependent on these conditions and the level of dependence is great. As mentioned previously at the analysis of ESG development across Europe, North America and Asia, the worldwide attention has been dropped on boosting ESG practices and the social responsibility of the companies. Except from governments’ awareness, the effort is being dragged to the companies and the investing community. All the way more, the focus is on prioritising societal needs in combination with profit maximisation rather than the mere pursuit of the profits. It goes without saying that individuals are in the process of adapting such a behaviour, leading the companies to commit to their ESG principles and make sustainable development and social responsibility a constant trend, from which investors could not take a neutral position (Daugaard D. and Ding A., 2022). However, but for governmental pressure and investors’

will, a lever driving ESG practice is, undoubtedly, the media. Media coverage can play a significant role when it comes to firms' image and reputation and that is a fact. So as to gain acceptability and preferability from media coverage, companies show willingness to design ESG-friendly business models and manage the risks originating from ESG. As a consequence, they are able to gain societal approval, attract activist investors and contribute to the transition the world community makes an effort to achieve (Zaccone M.C. and Pedrini M., 2020).

Last but not the least, leaving the financial part aside, environmental, social and governance concerns could not stay out of topic. As noted, world is gradually making a move towards long-term sustainability. Sustainability is immediately connected with the climate and the society. It is an undebatable fact that climate change is on the run, greenhouse gas emission levels are high, deforestation increases and biodiversity issue is gaining more and more attention while water scarcity is a constant concern. Additionally, in the field of human rights there is much space for improvement, mainly, because of their violation incidents observed, the equilibrium between employees' offer and their demands by the employers leans upon the side of the firms dramatically at many occasions and political stability has raised concerns over plenty of countries and, in parallel, gender equality still struggles to be balanced. Investment is associated with almost all aspects of life, can play the part of a game-changer and cannot be excluded from this "game". ESG ratings show the behaviour and the actions made by companies towards all these matters and are an indicator of enterprises' reaction supporting the solvency of these problems, which affect everyone, none excluded. Therefore, besides activist investors, there exist a lot of companies -and the number is going to be significantly increased in the following years- which struggle to control their ESG ratings as high as possible and, at the same time, they contribute to the overall good. Of course, the main reason for the companies integrating ESG in their agenda is the attraction of investors, as investment's main purpose is profit than morals, but it seems like a getaway and an incentive for taking an active role on environmental, social and governance issues and the final transition to a sustainable and prosperous world (Aich S. et al., 2021).

SECTION 4
LIMITATIONS AND CONTROVERSIES ABOUT THE UTILITY AND EFFICIENCY OF ESG AGENDA

Recently, environmental, social and governance issues have been included in companies' assessments and business models. Due to concerning and growing consequences of these matters, attention is much paid on these matters by society's stakeholders, such as governments, investors, suppliers, customers, employees, shareholders, other than the firms. ESG principles and ratings gather major importance and, beyond maximisation of profits, they are being integrated in daily business and investing activities and decision making processes. Nevertheless, except for the pro-environmental and pro-social behaviours and activist investors, there also exists the opposite counterpart, which is consisted of sceptical and doubtful components of the society towards the utility and effectiveness of ESG, supporting that crucial limitations are experienced. At this section, the doubts and concerns about using ESG are about to be presented.

First of all, it is a fact that ESG rating agencies play the most impactful role on this condition. Briefly speaking, the scope of ESG rating agencies is to identify and measure firms' ESG practices initially, and, then, provide the interested parties with the data acquired and the scoring results of each firm and constructed indexes (Pagano M. et al., 2018). However, concerns about the tactics and the ratings of these agencies have grown and a controversy has been raised in the market regarding this issue. The analysis of this issue has as follows:

The greatest concern about the ESG rating agencies is strongly attached to the observed divergence between the ratings of the same firms and indexes. According to literature, the reasons why two ratings of the same subject differ are difficult to be found and have not been distinguished yet. Though, two specific conditions are being examined mostly. The first condition has to do with the way ESG rating agencies define which factors are associated with the exact meaning of ESG and the second one is associated with the way these factors are to be measured in order to rate a firm's ESG score (Pagano M. et al., 2018; Subhash Abhayawansa and Shailesh Tyagi, 2021). An interpreting difference on the ESG factors has been observed based on alternative definitions each rating agency gives but, most of all, ESG ratings divergence lies upon the analysis and conclusions of the data acquired by

the agencies. The latter part seems to be the most important and urgent to be solved, as alternative views are acceptable and explicable due to different points of view and awareness on unequally weighted matters, but the measurement process has to be based on objective and precise information, that cannot justify disagreement (Berg Florian et al., 2019; Dorfleitner G. et al., 2015). According to a study made by Feifei Li and Ari Polychronopoulos (2020), the disagreement grows even bigger when assessing each component's rating separately. As for the indexes, the different attribution and absence of commonality in assessment process of ESG components lead to investors' confusion. ESG rating agencies tend to result in totally different scores of ESG indexes and, as a consequence, when it comes to assessing financial performance of ESG-based funds or portfolios in comparison with a benchmark, conclusions vary according to the selected benchmark. Moreover, due to this fact, ESG index ratings disagreement weakens the preference-oriented efficiency of ESG investors to the point that even when ratings are in accordance, their power is extinguished and do not necessarily lead to a positive relationship between good financial performance and ESG investing (Billio M. et al., 2021). So, with the absence of certain assessing criteria and the limited disclosing methods of the ESG rating agencies in addition with the plethora of existing indexes and indices, it could be supported that both companies and investors are in the complicated position to clarify which actions to be prioritised in order to improve their ESG assessment and, finally, be included in the ESG indexes, on the one hand, and which ratings and indexes should be more considered in their decision making process and their benchmarking, on the other hand. Subsequently, in the struggle of survival, it seems that mergers will take place in the ESG rating industry field and the strongest will survive while the weakest will be absorbed. That's the reason why there exist so many and with a different approach indexes, products and services served by the raters which have almost, if not at all, commercialised the ESG rating domain (EscrigOlmedo Elena et al., 2010). A supplementary element on this analysis should also be marked. Even though ESG rating industry has emerged due to the call for a supply of ESG-related information and scores, the industry has distanced itself from its initial purpose. In the procedure of its consolidation, the declaration that ESG rating system has implemented different principles and norms from what were "promised" in the beginning of the process could stand true. It seems that a kind of industry's retrogression has occurred, moving away from the real evaluation of environmental, social and governance issues related to the firm and approaching the traditional assessment which is implemented by the long-existed financial raters. As a result, the impactful original purpose could fade leading to some surplus indicators in the hands of investors and analysts. Plus, the innovative ESG rating

system may lose the capabilities which are related with the transition to sustainability and the protection of the environment and the society and the global movement which demands a substantial change may be weakened (Avetisyan E. and Hockerts K., 2017).

Based on the previous paragraph, it is observable that ESG rating agency sector weighing environmental, social and governance components under unequal methodologies leads to uncertainty. Each agency functions under its own criteria, pointing ESG components at their own, individual manner and since the principles and the undermeasurement components are not consistent, bias towards ESG practices is able to influence the rating of a firm (Escrig-Olmedo E. et al., 2019). Two factors that influence the biased concept of rating ESG practices are related to the geographical area that the rating firm exists, in association with economic standards, and, also, the size of the firm. Regarding the first factor, ESG issues are not integrated at the same level across different countries. There are countries which have managed to integrate ESG practices in daily life while there are some others that have stayed behind on the run. The level of integration is substantially related with the economic power of each region, meaning that the higher the living standards, the income and the education are, the more the attention is drawn on ESG matters. Therefore, it is clear that ESG ratings and indexes focus on certain economies and firms, excluding other from the evaluation process. Moving on to the second factor, firm size has a considerable impact on ESG rating agencies. The sources according to which the agencies rate the companies are, largely, drawn upon information available to public. The bigger the firm, the better the management of providing data and the opportunities in order to follow an ESG-oriented strategy. Furthermore, as large companies usually apply for financial help at the financial markets, they care a lot about their brand's image and, as a result, they have a greater concern about their ESG practices. Consequently, it seems that large enterprises face an advantageous behaviour by the ESG rating companies and the latter ones appear to favour them comparing to smaller-size firms (Pagano M. et al., 2018). At this point, I would like to include a rater effect documented by Florian Berg et al. (2019), which declares that when a company is assessed by a rater at a single, particular category and the score is high, the rater also has the tendency to rate the same firm with high scores at the rest of the categories. The explanation given is that assessment is classified "by firm and not by category", resulting to multiplying impacts on all sectors assessed, due to aggregate high scores. This implies a biased conduct towards the company and stakeholders can be driven to misleading information, affecting their decision making process and their view towards the firm.

Having analysed the factors of ESG ratings' divergence and bias concept, another factor influencing these ratings have to do with the ownership's commonalities between ESG rating agencies and the under assessment firms. Objectively, there should be no relationship affecting any part of the evaluation of the true ESG practices followed by the company and its respective score. However, it seems that this fact does not hold true. In reality, the ownership of the rating agency has the inclination to have a large impact on the under assessment firms, but only under a certain circumstance. This circumstance raises doubts and scepticism towards ESG rating system and is related with nothing else but the common ownership of the rater and the rated enterprise. Simply speaking, under evaluation firms which share the same big-stake shareholders with the raters tend to be rated with higher ESG scores, much alternative even when compared to the ratings from other rating agencies. Therefore, owners play a catalyst role and function on behalf of their own benefits when they are present at both sides of the rating, meaning the rater and the rated one. Moreover, it is remarkable that the connection between these two intensify as the investment's orient is long-term, the board is characterised by its activity and, of course, is a considerable stakeholder in the rating agency. The worst of all raising the doubts, though, is not the influential part that the owner comes across when the rater scores the associated under evaluation company but the fact that even when this company is rated with a high ESG rating, research results in negative ESG issues following the rating (Tang Dragon Yongjun et al., 2022). Undoubtedly, this is a considerable concern which raises awareness towards the effect of the rating agencies and their published scores.

Regarding ESG rating agencies' rating systems, quality enhancement has to be considered in depth. There are various aspects at which raters need to reconsider their assessment models, besides what has been noticed above. The existing rating systems consider rating a firm as a standard method in favour of cross-firm ratings comparison. However, during the assessment procedure, there are factors which can affect the company's score and do not apply to each firm, but is more specific subject to the region or the related industry, such as the regional environmental influence or the social ethics and rules. Furthermore, each rating agency in its effort of survival in the sustainability marketplace strives to expand and offer all the way more rating systems and indexes. This condition, except for providing extra data, offers a generalised confusion and fatigue to the receivers, practitioners and investors included, raising obstacles to gain acceptability and the move to the final transition to sustainability (Pagano M. et al., 2018).

Investment procedure is totally and undoubtedly associated with corporate transparency and reliable information. Reliability is a key-factor when an investor is in the middle of decision making process, a procedure which is dynamic and constant. ESG ratings are fully dependent on the data given by the companies, but what happens when the information lack of accuracy and honesty? According to the research made by Utz (2019) who makes a comparison between various corporate scandals and the equivalent rated firms accompanied by their ESG rating, concludes that the retrospective metrics are decreased during the year of the scandal, showing that rating agencies act effectively as to the negative corporate ESG news. Moreover, an increase at these indicators is noticed during the times following the scandal period and, as a general conclusion, these firms' scores are below average in contrast with the category at which they belong, whose overall score is notably and significantly above it (Utz S., 2019). However, concerning about the scandals and the negative outcomes which they have brought upon, it is an undeniable fact that the ESG metrics are not predictive. In fact, their scope is more backward-looking and, not at all, forward-looking. Publicly disclosed information, which is the main data used to evaluate companies' ESG performance, after being disclosed to the interested parts are almost instantly integrated by the institutional investors and the analysts. Consequently, their harmful impact has already taken place and the disaster has not been prevented or, at least, avoided (Pagano M. et al., 2018).

Stepping away from the ESG rating agencies and their weaknesses and limitations which lead a proportion of the investing community to scepticism and hesitation towards ESG investing and practices, a closer view at the corporate and individual responsibility regarding this matter seems essential in order to have a spherical analysis.

Firms' disclosure on their ESG practices and the way they use to evaluate and report them play a crucial role as for the controversies raised around the topic of ESG. It is remarkable that available information on firms' ESG agenda is only available for limited companies which have decided to be transparent. Nonetheless, there is a considerable number of companies which do not follow this path and do not disclose their ESG practices and issues and those which do, tend to not report periodically leaving periods of times unreported. It is also noteworthy that larger companies have bigger frequency than the smaller ones. Regarding the transparent companies, though, an existing problem is related with the way they present their data in their reports. It has been observed that reported information are inconsistent, spotting the differences in the terminology used and the implemented measurements. Which means that while assessing the same subject, companies tend to

interpret their actions with different names and unequal units. It goes without saying that the variety of the followed procedures leads the investors to confusion, not being able to identify the best out of the whole through incomparable data (Kotsantonis Sakis and Serafeim George, 2019).

Although ESG disclosure plays a moderating role at most of the arising issues, there has been noticed that there exist some parts which do not work that way. Firms connected to high ESG controversy levels complicate the forecast analysis of financial performance. The higher the engagement of the firm in such controversies, the bigger the probability and the amount of forecasting faults made by an analyst. However, ESG disclosure can reduce the size of the forecasting errors while, at the same time, high ESG controversies are associated with and dependent on firm's ESG transparency level. In other words, ESG disclosure, on the one hand, helps forecast analysts make more accurate and precise analyses but, on the other hand, high ESG controversies are raised even bigger at the same time engaged corporates decide to disclose their ESG data (Frank Schiemann and Raphael Tietmeyer, 2022). A confirmation of the analysis of firms with high ESG controversy level comes in accordance with Carmine de Franco (2020), who investigated stock performance in Europe and United States and resulted in lower returns and underperformance of such stocks in comparison with their benchmark or less controversial, related to ESG issues, stocks. A firm being wholly transparent regarding its ESG information has also supplementary impacts. According to Dane M. Christensen et al. (2022), a study concludes that higher ESG disclosure levels are associated with higher disagreement as for the ESG rating of the firm. This conclusion is accompanied with the finding that the disagreement level of the rating of the ESG outcome is greater than that of the input assessment and transparency weakens the agreement rate of the first one. Consequently, firms come opposite to higher percentages of return volatility and find barriers when they address to lending institutions for external finance. In contrast, Michael D. Kimbrough et al. (2022) stated that firms which voluntarily contain non-financial issues such as environmental, social and governance dimensions in their reports are subject to lower disagreement rates than those which do not. Some interesting attributes at their study are consistent with the conclusion that the longer the firm reports or the existence of third-party "testimony" have the capability of lowering the level of disagreement among the ESG rating agencies. Additionally, less objective reports which use extra-positive or complicated phrases tend to increase the disagreement. Another negatively affecting element is a possible uncertainty in the capital markets which strengthens the disagreement. To continue with, the absence of mandatory ESG disclosure plays a dominant part at the opinion of the investors

towards ESG. Obligatory transparency has positive impacts on firms reporting on ESG as well as the quality of the data included in the reports. There are countable positive outcomes through this obligation which consists of accurate analysts' forecasts, less bad ESG incidents and more stable stock performance in the financial markets. The effect is intensified if the obligatory regulations are established by governmental authorities rather than the exchange markets' ones (Krueger Phillip et al., 2021). As Eccles Robert G. et al., (2017) and Amir-Abel Zadeh and George Serafeim (2018) stated, the most difficult limitation to overcome that ESG full and proper integration faces is the fact that the reporting standards and norms for ESG disclosure and the exact way that the revealed data should be made good use of are absent.

At the aspect of investors, the limitation leans upon the investing community. There is a significant number of investors who appear to be sceptical towards ESG investing. The reasons for this doubt vary and have different orientations. First of all, ESG investing as a sustainable way of capital allocation seeks its benefits in the long-term rather than the short-term. As a consequence, investors who seek profits in the near future are the ones who are doubtful and meet lower returns. However, the benefits of ESG investing are not instantly recognised but it takes time for them to appear. Secondly, negative screening method, when isolated and not followed by supplementary investment methods, lead to a paradox. For example, if ESG investors exclude fossil fuels from their portfolios due to the harm to the environment and financial risks that are accompanied with them, result in lowering their prices in the financial markets. Because of this matter, the low prices attract anew the investors and a vicious circle is created. Last and most important, the integration of ESG practices is followed up by costs, which instantly occur but the respective benefits need time to be absorbed. Although outperformance in the financial markets is included in the mentioned benefits, the fact that they do not possess the ability to be instantly recognised comes opposite to the profit-seeking and short-term investors. More, in order to let ESG investing fight its way to the top, a debatable factor is the will from the side of the investors. Full integration of ESG practices can achieve the "guaranteed" benefits, though, a notable number of managers go half way, do not properly integrate ESG into their investment models and while facing the costs, do not materialise the profits given the fact that they achieve lower returns (Cappucci M., 2018).

CONCLUSION

As noticed, ESG issues are engaged all the way more into business activities, decision making processes and portfolio construction procedures because of the recognition of increasing societal and environmental needs. Governments and policymakers implement new laws and regulatory frameworks in order to increase the pressure of integrating ESG practices in people's lives. However, there is still much to do so as to reach, finally, the full and proper integration of ESG and attain sustainable development. Besides governmental powers, the findings show that ESG disclosure is much needed and proves to be beneficial to both companies and investors, implying that mandatory non-financial reports could be a game-changer. Furthermore, commitment to ESG practices is positively associated with firm's financial performance and both recognised and awarded by the investing community as well as the lending institutions. Following an ESG agenda can lead the firm to reduce the risk it faces while increasing the risk-adjusted returns. Last but not least, ESG practices can affect all the aspects of life, improving all the involving sectors, like the natural and employing environments and the local communities. However, this study also proves that there is a considerable number of limitations which restricts ESG from its growth and establishment. The vast majority of the limitations leans upon the ESG rating agencies. Raters' disagreement on firms' ESG performance raises doubts and suspicion among the investing community. There is not a specific ESG assessment guide and this fact leads to a great divergence among the ratings. Bias and ownership matters come to intensify the suspicion around ESG ratings and grows negativity towards them. Moreover, ESG disclosure and reporting are two key-factors which can play a role of major significance in order to contribute to full integration of ESG and should be considered in depth. Including the institutional and individual investors in this analysis, the findings show that those who are not fully committed to integrate ESG factors in their practices properly, end up with lower returns and do not profit from ESG investing in contrast with the investors who anticipate its utility and efficiency level and look forward in the long-term rather than short-term and "rapid" profits.

All the above mentioned, this study contributes to the existing literature, comprising a vast number of researches and studies and offers to the readers an explicit and apprehensible approach of ESG and its motivating factors while, at the same time, presents the limitations which blocks ESG from its total approval. This study can be useful for practitioners so as to

help them realise the pros and cons of integrating ESG into their investing processes, for the academics in order to monitor the missing gaps of the existing literature and fill them with their own studies and for policymakers and raters in order to anticipate the existing flaws in their rating systems, correct them and eliminate the suspicions and doubts contributing to the transition to a sustainable world.

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