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What do we really measure?

The Role of non-content-related data for the ESG Score of a company

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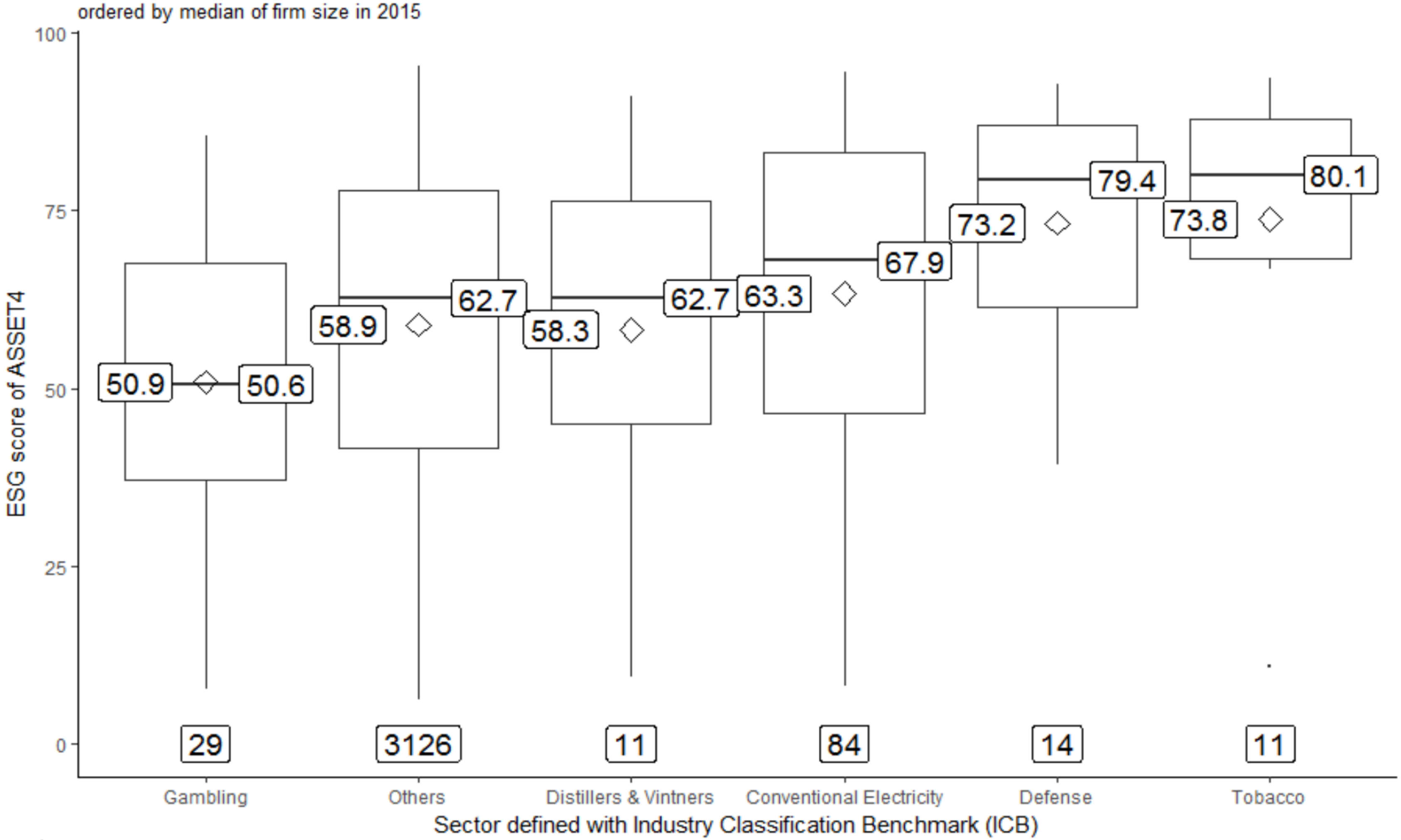
ESG Score of controversial identified branches compared to remaining companies in the ASSET4 universe

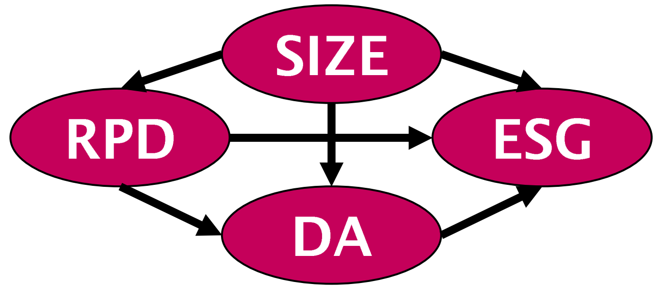


What can we say about the data base of CSP?

- Companies with good ESG scores and rankings have offences in the ESG context. (Entine 2003, Seele&Chesney 2016)
- ESG ratings are not convergent in their results. (Chatterji et al. 2014)
- Every company can be in any sustainable index. It only depends on the ESG rating agency that you choose. (Hawkens 2004)
- Missing standardization is also a problem for the praxis:
  - How can ESG performance across companies be compared?
  - Barrier for investors to use sustainable measures as investment criteria. (State Street Global Advisors 2017)

Are ESG ratings a suitable tool to reallocate funds to more sustainable companies?

Hypotheses (1)



H1: SIZE influences RPD positively

1. Larger companies have more knowledge/ resources to implement sustainable management tools (Hörisch et al. 2016)

H2: RPD influences DA positively

2. Work of rating agencies

H3: SIZE influences DA positively

3. Information transfer depends on the size of the company (Adams et al. 1998) ; larger companies are more consequent in publishing extern, more formal about CSR activities (Baumann-Pauly et al. 2013) and more comprehensive/ complex (Gallo & Christensen 2011)

H4: DA influences ESG positively

4. CSR reputation is higher with more available data points (Hughey & Sulkoski 2012)

H5: RPD influences ESG positively

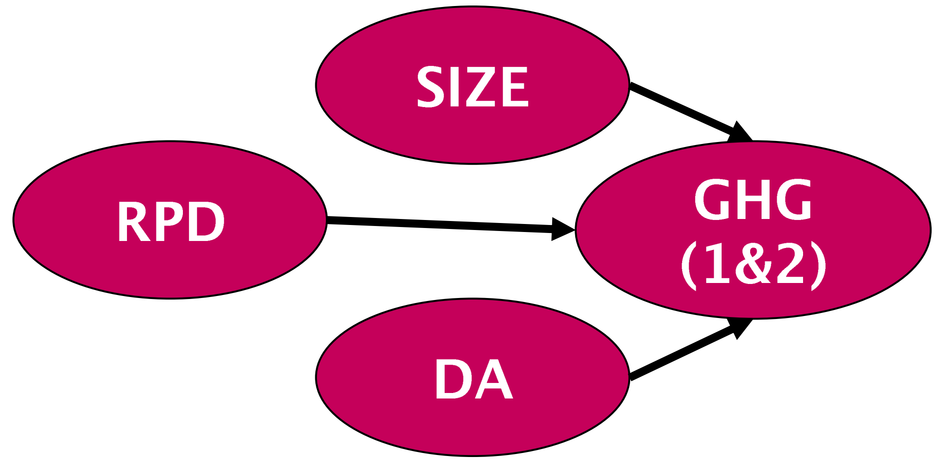
5. It is shown a positive correlation between environmental and social reports und environmental performance (Clarkson et al 2008)

H6: SIZE influences ESG positively

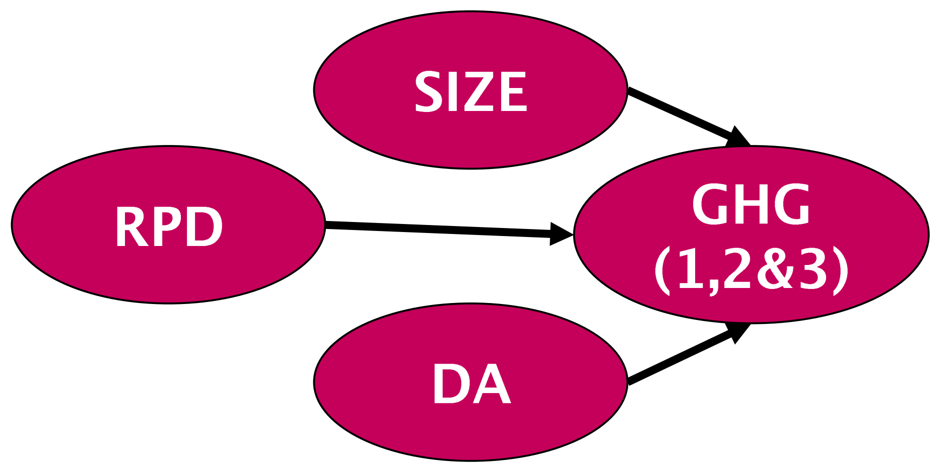
6. CSR as a competitive advantage (Branco & Rodrigues (2006); CSR as a solution for agency problems in larger companies/ higher pressure (Udayasankar 2008); necessary of more research is proclaimed (Völker 2014)

Hypotheses (2)

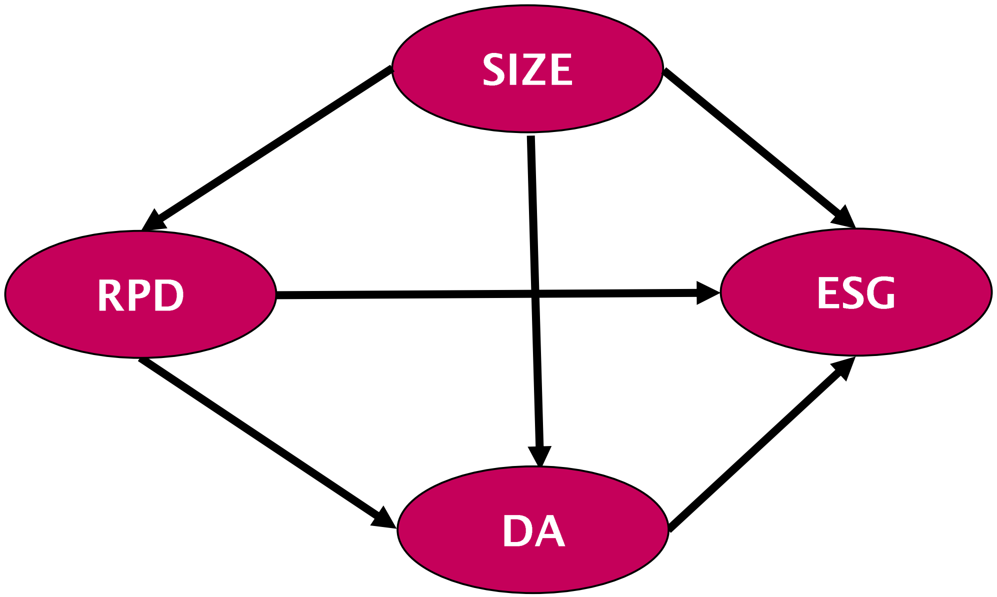
H8a: SIZE, DA and RPD have no or positive influence on the GHG intensity (scopes 1 and 2)

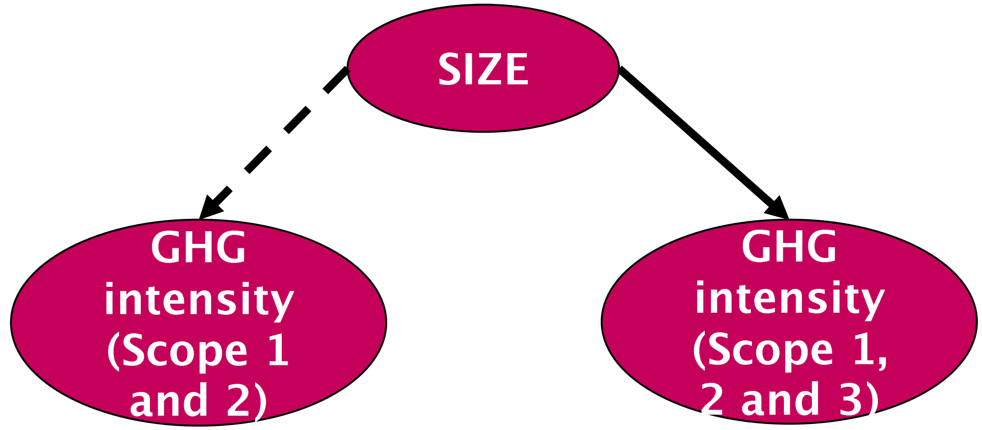


H8b: SIZE, DA and RPD have no or positive influence on the GHG intensity (scopes 1, 2 and 3)



Linear Mixed Effects and Structural Equation Model





Significant in all cases

Hypotheses 1–7 are supported.

nine from sixteen firm size coefficients are not significant and/or positive

Hypothesis 8a only partially supported.

one from sixteen results is significantly negative

Hypothesis 8b is supported.

Discussion

Size (number of employees, market capitalization, total assets), data availability (DA) and resources for providing ESG data (RPD) have a great impact on ASSET4 ESG scores

- Larger companies have more resources (e.g. institutionalized reporting) for providing data and are under greater third party scrutiny (firm visibility)

  → higher data availability in ASSET4

  → higher ESG score

Larger companies do not have a lower GHG intensity if we focus on scopes 1, 2 and 3

- The difference to scopes 1 and 2 is explainable with the legitimacy approach of the neo-institutional theory.

Conclusion

(1) If ESG scores do not measure CSP correctly they do not channel capital to more sustainable companies.

– First of three aims of the Action Plan of European Commission: "reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth"

(2) ESG scores do a good job, but needing a revision.

(3) For researchers, it is necessary to challenge the ESG databases / ratings more.

(4) If an ESG score depends mostly on the firm's size and resources, it challenges how comparable the sustainability between different sectors and portfolios is.

First it should be clear how the instrument works and then it should be used wisely.

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