



Going ESG: The economic value of ESG policy adoption

Maya Finger, Mosi Rosenboim

The Guilford Glazer Faculty of Business and Management, Ben-Gurion University of the Negev

OBJECTIVE

This research presents a unique model that allows us to measure the economic value of adopting an Environmental, Social and Governance (ESG) policy for financial institutions' stakeholders.

INTRODUCTION

Most studies deal with the positive relationship between ESG strategies and financial performance, focusing on the benefits for shareholders. There are very few studies of the effect of adopting this policy on customers and employees. The few studies that do exist deal with general issues such as the effect of the level of internal and external reporting on the relationship between them and the company. The current study will examine the adoption of an ESG policy in financial institutions and the additional value that stakeholders, particularly customers and employees, gain from that policy.

H1: Adopting an ESG policy has a positive additional value for customers of financial institutions.

H2: Adopting an ESG policy has a positive additional value for employees of financial institution.

The Model

$$TV_{(switch\ to\ non-ESG)} = BV + SQV - AV$$

$$TV_{(switch\ to\ ESG)} = BV + SQV + AV$$

Methodology

The questionnaire was distributed to 277 individuals in Israel, 203 were financial sector customers, and 74 were financial sector employees. They were asked 4 questions like in this example: "You manage an account at a financial institution that adopted principles of social, environmental and governance (ESG) several years ago, and acts in accordance with them. You currently pay account management fees of NIS 27 (NIS stands for new Israeli shekels. At the time of writing, there were NIS 3.25 in one American dollar) per month. Assume now that another financial institution that does not intend to adopt these principles approaches you to open up a new account and transfer all your financial activity to it. Indicate the maximum management fees you would be willing to pay in order to close your account at the adopter financial institution and move to managing your account at the non-adopter financial institution."

The answer to this question was the account management fee that an individual customer is willing to pay in order to transfer all of his/her financial activity from an ESG to a NESG, meaning $TV_{(switch\ to\ non-ESG)}$ in terms of management fees.

Methodology- Cont.

"Assume now that you maintain an account at a financial institution that does not intend to adopt social, environmental and governance (ESG) principles and pay account management fees in the amount of NIS 27 per month. You are now offered the opportunity to open up a new account at a financial institution that adopted these principles several years ago and acts in accordance with them, and transfer all of your financial activities to it. Indicate what management fees you would be willing to pay in order to transfer your financial activity from the non-adopter financial institution to the adopter financial institution."

The answer to this question was the account management fees a customer is willing to pay to transfer his/her financial activity from a NESG to an ESG and reflected the $TV_{(switch\ to\ ESG)}$ in terms of management fees.

Results

	$TV_{(switch\ to\ non-ESG)}$	$TV_{(switch\ to\ ESG)}$	AV	Obs
Customers-Average	9.62*** (9.34)	27.20 (12.95)	8.79*** (8.05)	202
% of average management fee			47.74%	

	$TV_{switch\ to\ non-ESG}$	$TV_{switch\ to\ ESG}$	AV	Obs
Employees-Average	15,061.03*** (6,726.04)	11,993.53* (4,128.04)	1,533.75*** (2,967.39)	74
% of average income			11.3%	

CONCLUSION

We find that, on average, workers are willing to forgo 11% of their salary to work for a company that has such a policy. In addition, customers are willing to pay 47% more in management fees to do business with financial institutions that have such a policy. To our knowledge, this is the first study that quantifies the benefits for financial institutions stakeholders of adopting an ESG.