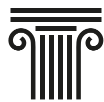
LUISS 

Course of

SUPERVISOR

CO-SUPERVISOR

CANDIDATE

Academic Year

The Growing Importance of ESG in Multinational Financial Services: The Role of ESG Reporting and its Effect on Reputation and Market Capitalisation

Table of Contents

Summary *4*

Introduction *5*

Literature Review *6*

ESG Reporting Tools *13*

- **Sustainalytics ESG Risk Rating** **16**
- **S&P Global Ratings ESG Evaluation** **16**
- **MSCI ESG Rating** **17**
- **EU Taxonomy and UK's Green Taxonomy** **19**
- **Securities and Exchange Commission** **21**
- **Principals for Responsible Investment** **23**
- **Stakeholder and Legitimacy Theory** **24**
- **Measuring Corporate Reputation and Firm Valuation** **25**

Methodology *27*

ESG Reporting and Market Capitalisation by Firm *28*

- **JP Morgan** **28**
- **HSBC** **34**
- **Barclays** **37**
- **ESG Ratings Comparison** **41**

Conclusions and Discussions *43*

Summary

This thesis investigates the growing importance of environmental, social and corporate governance (ESG) in multinational financial services as well as its effect on market capitalisation and reputation. The study includes the comparison of three predominant financial service companies; JP Morgan, HSBC and Barclays. It draws upon both qualitative and quantitative data from annual ESG reports for all three companies, aiming to compare earliest publicised ESG reports with latest reports. In addition to this, an examination will be done on key measures of ESG through three key rating agencies, comparing the results of JP Morgan, HSBC and Barclays. A last comparison will be made assessing market capitalisation of each firm from the year of publication of initial ESG reports with the year of most recent ESG report publication as this will give an indication if there is any correlation between an improvement in ESG reporting and brand valuation shown through shares. Based on a summary of the current literature and research on this topic, this paper aims to further define a clear link between ESG reporting and firm reputation while also providing insights in terms of a more efficient and effective way for companies to standardise ESG ratings across region and sector.

Introduction

Financial services worldwide have begun to take more accountability and responsibility in the way they operate both at a social level as well as environmental. Both investors as well as the consumer public are demanding transparency and improved efforts within all aspects of environmental, social and corporate governance (ESG). In the past five years alone, societal and environmental risks “have dominated the global risk agenda outlined at the World Economic Forum making ESG issues critical factors in decision making and strategic planning” (Arvidsson, S. and Dumay, J., 2022). Companies with high ESG ratings have experienced stronger increases in their share price in the past five years, according to research by Morningstar. Policy makers in the EU, UK and USA have also paid close attention to the rising importance of ESG within the financial sector and have in turn massively increased funds for ESG. As stated by Bruno and Lagasio, “according to the ECB’s Financial Stability Review, the Asset Under Management (AUM) of ESG funds has increased by 170%, soaring from 500 billion USD in 2015 to more than 1.3 trillion USD in 2020” (Bruno, M. and Lagasio, V., 2021). Country specific ESG regulation has also amplified with more stringent rules on sector specific ESG guidelines as well as increased regulatory bodies which are exclusively designed to promote up to date information regarding ESG incorporation. As recognition and funding for all areas of ESG increases globally, it is important for companies to realise the effect of integrating ESG in day to day business not only for overall reputation and firm valuation but potentially for improved performance (Friede, G., Busch, T. and Bassen, A., 2015).

Literature Review

The concept of ESG has become increasingly widespread over the last decade and has gone through extensive development following 2004 when the term was officially coined by Kofi Annan (Pollman, E., 2022). The three strands of ESG refer to environmental, social and corporate governance which are specific areas that companies are increasingly focusing on, not only in order to improve working conditions, investment and environmental footprints but to also to improve long- term reputation. This set of criteria can be used in evaluating both the ethical and sustainable impact of an investment and or business. The environmental component of ESG focuses on a company's relationship and impact with nature. This looks at sustainability practices in particular concentrating on issues such as water usage, energy efficiency, pollution control, waste management, carbon emissions and policies related to climate change (Pollman, E., 2022). Companies which value the need to minimize their negative impact on the environment and can show effective day to day sustainable practices can improve their overall operational efficiency and foster innovation. A large aspect of improving sustainability within financial services is integrating environmental risks into the entity's overall risk mitigation (Weber, O., 2012).

The social component of ESG evaluates a company's relationship with its stakeholders, employees, suppliers, customers and greater community. Features considered here include diversity and inclusion policies, employee relations and treatment, community engagement, health and safety practices, contributions to social causes as well as customer satisfaction (Eccles, R.G., Lee, L.E. and Stroehle, J.C., 2020). Companies considered to have a strong and

positive social focus tend to contribute positively to the well-being of their employees and stakeholders as well as foster positive working relationships. Lastly, governance within the corporate world refers to the practices and structure that guide the management of a company as well as their decision-making processes (Lagasio, V. and Cucari, N., 2019). Strong corporate governance ensures that a particular company or business operates with fairness, accountability and integrity whether it be through transparency of financial reporting, board diversity, shareholder rights, executive compensation and adherence to ethical business practices (Khan, M., 2019).

There are a number of factors which can explain the increase in ESG investing and integration among multinational financial services. One of which is risk management and mitigation. By staying on top of investment trends and prioritising what is garnering more value in the market, firms can massively decrease potential litigation risk from investors (Barzuza, M., Curtis, Q. and Webber, D.H., 2019). Climate change impact is another key factor in the rise of ESG integration among financial service firms. According to Christopher Johnson, Senior product manager at HSBC Bank, “insurance claims from natural losses have quadrupled since the 1980s” (Johnson, C., 2020). It is integral for firms to take into account the adverse effects of global warming and climate change and what it could mean for future investment and future work practices. Forecasting environmental risks and being able to provide strategies for mitigating these will serve financially beneficial in the long run. As well as this, investor demand on ESG reporting has risen significantly. Long term sustainability is a key consideration when stakeholders invest in certain companies (Fulton, M., Kahn, B. and Sharples, C., 2012).There is a huge risk in the

loss of business if ESG is not integrated in certain aspects of a company and the requirement and need for this to be incorporated by firms is becoming a more of a prerequisite.

Investment firms may set their own individual ESG priorities when looking at a particular company, sector or industry. As priorities vary between shareholders, there may be discrepancies between ESG approaches across companies worldwide. For example, some companies may take more considerations on sustainability if their environmental footprint is significantly higher than other sectors and other companies may focus more on social aspects when aiming to gain greater attention and trust from their communities and employees. As well as this, ESG can vary between location, with different countries imposing different mandates and policy regulation on particular aspects of ESG which companies are legally obligated to adhere to (Singhania, M. and Saini, N., 2022). There has been extensive literature which has focused on cross-country comparison of ESG regulation such as the study entitled "Quantification of ESG Regulation" (Singhania, M. and Saini, N., 2022). Here we can see more of an in-depth investigation into the 28 countries which have regulated ESG, all with varying levels of enforcement and framework methodologies. As awareness on ESG increases, the number of countries which have integrated ESG regulation within aspects of their government have also increased (Singhania, M. and Saini, N., 2022).

When studying the values of ESG, we are reminded of the underlying philosophy of corporate social responsibility (CSR). The idea of CSR pre-existed the notion of ESG and has a long history which has evolved overtime and can be argued to be the foundations of ESG development (Gillan, S.L., Koch, A. and Starks, L.T., 2021). CSR is a self-regulating business

model which explains how companies can be more conscious about the impact they have on all aspects of society, not just the immediate surroundings in which they operate (Sheehy, B., 2015). CSR encompasses a wide range of activities including environmental sustainability efforts, community engagement, philanthropy, ethical business practices and employee welfare programs (Blowfield, M., 2005). Financial institutions have been encouraged to incorporate CSR into their day to day business as consideration of the wider society aside from financial gain is a feature that shareholders as well as customers will value. In Howard Bowens "Social Responsibility of the Businessman", he advocates for businesses to consider the impact of their decision making beyond economic gain and emphasises the ethical obligations of business to address societal issues (Bowen, H.R., 2013).

Often companies which invest in socially responsible and environmentally friendly services and products see benefits in both how their companies are valuated as well as how they are perceived by consumers. A key analysis of this topic is a study entitled "Perceived ESG (Environmental, Social, Governance) and Consumers' Responses: The Mediating Role of Brand Credibility, Brand Image, and Perceived Quality" (Koh, H.K., Burnasheva, R. and Suh, Y.G., 2022). Through an online survey of 458 South Korean consumers, this study aimed to investigate how the public viewed ESG and to what extent it had impact on how they interacted with various organisations and companies. Some of the key findings included the fact that the strongest impact was the social dimension of ESG when consumers were assessing brand image, brand credibility, and perceived quality. As well as this, the governance dimension of ESG also had a direct, positive effect on consumers attitudes however environmental factors were shown to have no direct correlation between participants and brand-related outcomes (Koh, H.K., Burnasheva,

R. and Suh, Y.G., 2022). This could be explained through the potential lack of awareness of consumers on the contribution and benefits of corporate environmental initiatives. This can be used as an implication for further studies to encourage companies and organisations to raise more public awareness on their sustainability efforts.

It can be difficult assessing the overall effectiveness of environmental and sustainability efforts within companies. This can often be the cause of greenwashing. This refers to a false or misleading impression that often times companies convey when trying to depict themselves as sustainable in order to garner a more positive public image (Baldi, F. and Pandimiglio, A., 2022). services or products by exaggerating their positive environmental impact. This can be done by companies through publicising misleading and ambiguous information as well as unregulated environmental claims on their products or websites in order to give the impression that sustainability practices are used without having to provide strong evidence (Yu, E.P.Y., Van Luu, B. and Chen, C.H., 2020). In order to ensure that companies do not overlook significant environmental and sustainability issues within their core business practices, the process of auditing as well as scoring and rating of ESG integration and risk through third party entities are some of the ways in which firms can provide evidence for claims they are making (De Silva Lokuwaduge, C.S. and De Silva, K.M., 2022). Companies are now under more stringent regulations and guidelines in order to not only comply with basic ESG guidelines but to also prove that the steps they are taking to integrate ESG are being met (Cicchiello, A.F., Marrazza, F. and Perdichizzi, S., 2023).

The economic benefits of integrating ESG have garnered significant attention. More companies are realising that the benefit of ESG in day to day working practices not only enables the business to become more environmentally friendly but will also result in larger economic yields. Many studies have been published on investigating the link between corporate performance and ESG factors. One key example of this is the study entitled “ESG and financial performance: aggregated evidence from more than 2000 empirical studies” (Friede, G., Busch, T. and Bassen, A., 2015). This empirical study compared the findings of around 2200 individual papers which looked at the relationship between ESG and corporate financial performance (CFP) and tried to determine a correlation between the two. The majority of the 2200 studies showed a positive correlation between ESG and CFP with an overall 90% of studies finding a “non-negative ESG-CFP relation” (Friede, G., Busch, T. and Bassen, A., 2015). Although data was from a variety of different regional backgrounds, asset classes and across various ESG approaches, a distinct positive empirical result was found. The discussions of this particular study highlight the growing need for future research to be focused on “the interaction of different ESG criteria in portfolios and the relevance of specific ESG sub-criteria for CFP” (Friede, G., Busch, T. and Bassen, A., 2015). In order to gain more in-depth knowledge on ESG performance impacts, it is crucial to break down ESG into its three subcategories and align each with their individual impact on corporate financial performance.

In terms of ESG ratings affecting reputation, there have been numerous academic studies that have found a positive correlation between the two in various different sectors. A study carried out in 2020 found that there was a positive correlation between ESG score and reputation in the Italian banking sector in particular. This was due to the fact that a higher ESG score, provided by

the ratings of Bloomberg and Thomson Reuters, meant that the banks in question had a reduced likelihood of being sanctioned (Murè, P., 2021) Receiving any sort of financial penalties or sanctions meant that the credibility of the banks in question would be in decline and as well as this their reputation (Murè, P., 2021). In order to increase pressure for the banking sector to integrate ESG parameters within their firms, the European Banking Authority has released the potential financial impact and transitional risks that could be seen due to the increasingly growing climate crisis (Smoleńska, A. and van't Klooster, J., 2022). In order for the financial service sector to effectively mitigate some of these threats, ESG parameters are expected now to be integrated fully within individual companies' credit policies as well as risk processes.

Companies can protect shareholder value and safeguard their financial performance by managing risks proactively. By adopting environmentally friendly practices, reducing waste and optimising resource use, operational costs within a company can be reduced which can directly lead to increased overall profitability. By following and upholding the values of ESG, companies can also enhance their reputation and brand value. Companies who are known by their shareholders and the public for their positive contributions to society and responsible business practices tend to lead to increased customer loyally and positive associated within the media. According to Carpenter and Wyman (2009) and Fulton, Kahn, and Sharples (2012), there have been numerous, extensive studies on the relationship between companies ESG profiles and their ESG ratings however due to the opposing methodologies applied as well as the varying ESG rating methods used, results could be classed as inconclusive. It is because of this reason why I have chosen to look at the ESG profiles of three highly successful financial service companies and analyse their individual ESG reports and subsequent ratings from three key agencies.

ESG Reporting Tools

It is important to note that there is no standardised or set system within ESG and so different rating agencies or organisations may use varying methods to rate and asses a company's ESG performance (LIANG, H. and CHAN, K.C., 2022). Third party agencies are the ones that tend to deliver ESG ratings as a combination of the three main pillars however can also provide separate scores on the three strands individually (Khachatryan, H.V., 2022). These scores can then be used to assess a particular company's equities. ESG rating and scoring can be done as infrequent or frequent as a company sees fit. There has been a recent increase in credit rating agencies that have announced that ESG will be incorporated, along with existing measurements, within their services (Escrig-Olmedo, E., 2019). One example of a company already doing this is S&P, however there are numerous examples of other third-party contractors of ESG data and analysis as shown below in figure 1. The way that ESG is measured and reported varies among different financial services. When looking at the various tools that can rate ones ESG progress, some might provide more emphasis on factors within the environmental sector whereas others will lean more towards reporting on a company's social and corporate governance development.

• Arabesque S-Ray • Bloomberg • Carbone 4 • CDP • Clarity • Covalence • CRD Analytics • CSRHub • EcoVadis • ECPI • Fitch • FTSE (London Stock Exchange, including Beyond Ratings and Grizzly Responsible Investment) • Ideal Ratings • Impact-Cubed • Inrate • IRRC (Investor Responsibility Research Center Institute) • ISS-Oekom (incorporates South Pole Group and Ethix)	• Moody's Vigeo (incorporates EIRIS, Imug, Four Twenty Seven and a minority stake in Syntao Green Finance). • MSCI (incorporates GMI ratings and Carbon Delta) • OWL • OWW Consulting • Refinitiv (formerly Thomson Reuters), incorpo-rates Point Carbon and Asset 4 • RepRisk • RepuTex • S&P Trucost (incorporates RobecoSam) • Sustainalytics (part-owned by Morningstar, and incorporates G.E.S International and Solaron Sustainability Services) • TruValue labs; Insight 360 • UTIL • Verisk Maplecroft • Wind (partnering with Syntao Green Finance and CASVI)

Figure 1 – Examples of ESG data and analysis companies; Source HSBC Securities Services (HSS) (Johnson, C., 2020)

ESG reporting tools are vital for investors and shareholders in assessing the non-financial progress of particular companies (Esty, D.C. and Cort, T. eds., 2020). However, due to the multiple reporting tools, comparison across companies on ESG progress can be extremely difficult (Khachatryan, H.V., 2022). As well as this, issues such as reliability and trust come into question as greenwashing through reporting has becoming a common occurrence in corporate reports seen through only the positive aspects of a firms ESG progress being mentioned and downfalls and areas for improvement are left out of the reports (Yu, E.P.Y., Van Luu, B. and Chen, C.H., 2020). According to Statista Research Department, "as of September 2021, the share of investors worldwide satisfied with the quality of ESG reporting stood at only 33 percent" (Statista Research Department, Jul 5, 2023). Each ESG rating company or provider has a unique

methodology for evaluating and measuring firm or company specific ratings. In some cases, as metrics vary between ESG rating providers, the same company can be ranked significantly lower by one provider and in turn quite highly by another provider. As the range of ESG reporting is so vast, there are major inconsistencies with reporting not only across country but also across sector. It is key for investors to understand which metrics are being ranked and evaluated in order to be able to invest in firms which meet the ESG criteria which is principal to them. This indicates that regulation on ESG reporting should be stricter in addition to the need for a more globally standardises reporting framework on ESG.

According to Hazelton and Leong, only under certain conditions is mandatory ESG reporting likely to improve a company's performance (Leong, S. and Hazelton, J., 2019). Due to that fact that greenwashing may appear in some form through ESG reporting, it is important to begin creating a more thorough and transparent reporting system that is capable of being trustworthy and effectively audited. There are however limits to this as it is extremely difficult to standardise a global ESG rating system that would meet the individual standards of each country while also taking into account every business sector. An article published in 2020 listed some of the key studies done on the "divergence of ESG ratings and measures, and on the need to uniform and standardize this framework across jurisdictions" (Murè, P., Spallone, M., Mango, F., Marzioni, S. and Bittucci, L., 2021). Of the four studies listed, all of them discuss the confusion caused by a multitude of different ESG rating systems and how it makes target comparison and evaluation of performance near impossible as the ratings between different ESG providers "disagree substantially" (Berg, F., Koelbel, J.F. and Rigobon, R., 2022).

Sustainalytics ESG Risk Rating

Sustainalytics is a major rating agency which assesses companies ESG risks and categorises them across five risk levels negligible (0-10), low (10-20), medium (20-30), high (30-40) and severe (40+) (Filbeck, A., Filbeck, G. and Zhao, X., 2019). The scale rages from 0-100 which is best to worst where negligible risk is the best score to obtain and refers to the enterprise value in question having a negligible risk of material monetary impacts motivated by ESG factors. Whereas severe risk (40 and higher points) indicates that the firm value in question is considered to have a severe risk of material financial impacts driven by ESG factors (Filbeck, A., Filbeck, G. and Zhao, X., 2019). The framework of this rating system looks at both the measuring of a "company's exposure to industry-specific material risks and how well a company is managing those risks" (sustainalytics.com). One of the key benefits when of the Sustainalytics rating system is that it is anchored in universal research which includes more than 16,300 analyst based ESG risk ratings (sustainalytics.com). These cover privately held companies as well as fixed-income and public equity.

S&P Global Ratings ESG Evaluation

The S&P Global Ratings ESG Evaluation is measured by a set of indices measuring both a company's exposure to performance on significant ESG opportunities and risks (spglobal.com). The scores are measured on a scale of 0 – 100, where 100 represents the maximum score. These scores are focused on performance driven, quantitative metrics, management programs and policies spanning 61 Global Industry Classification Standard (GICS)- aligned sub-industries

(iriscarbon.com). Companies looking to be scored by S&P Global are invited to submit responses and supporting evidence online through a portal which is then assessed based on the latest financial year reporting. The questions are structured to assess a company's implementation of strategies to manage sustainability risks, awareness of the relevant ESG impact and risk as well as potential opportunities to mitigate these. The evaluation is separated into two key parts which is firstly through establishing an initial ESG profile for the entity or firm in question. This is set out to assess any ESG related exposure by location and sector. Secondly, the company in question is then assessed on their long-term preparedness. This looks at capacity to foresee and adapt to a range of plausible long-term disruptions.

MSCI ESG Rating

The final rating agency in this study is Morgan Stanley Capital International (MSCI). This rating framework aims to measure a firm's management of financially relevant ESG opportunities as well as risks. In terms of assessing and scoring within the environmental pillar, the four factors analysed here include pollution and waste, natural capital, climate change and environmental opportunities. The social pillar looks to score the four topics of human capital, product liability, social opportunities and stakeholder opposition. Finally, the governance pillar looks to score on two main features of corporate governance and corporate behaviour. In this particular rating agency "ESG ratings range from leader (AAA, AA), average (A, BBB, BB) to laggard (B, CCC)" (msci.com). According to the online website of MSCI, the following definitions are used for the three potential rating outcomes:

- Leader (AA, AAA) = A company leading its industry in managing the most significant ESG risks and opportunities
- Average (BB, BBB, A) = A company with a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers
- Laggard (CCC, B) = A company lagging its industry based on its high exposure and failure to manage significant ESG risks (msci.com)

The Global Reporting Initiative (GRI) is another integral part of ESG integration. The GRI is an international, independent organisation which provides sustainability reporting standards which are used globally. Multi-national firms, such as JP Morgan and Barclays, tend to follow GRI standards when preparing and formulating their annual ESG reports. The benefit of following the GRI standards when reporting on ESG allows for easier comparison across companies as well as its framework which ensures transparency. They key benefit of the GRI being a standardised system is that it "allows external stakeholders to conduct comparative analyses of how well companies are doing on a sustainability issue of primary public interest" (Luo, L. and Tang, Q., 2022). According to KPMG (2020), "GRI remains the dominant global standard for sustainability reporting" (Luo, L. and Tang, Q., 2022). Alongside initiatives such as the GRI, companies must also follow the guidelines and policies set by their national governments in which they operate in. These will vary between country with some enforcing stricter regulation on ESG integration than others.

EU Taxonomy and UK's Green Taxonomy

National financial service companies such as JP Morgan, HSBC and Barclays have carried out individual processes of integrating ESG into their companies while also following specific regional regulation. There has been a greater shift in recent years from a more voluntary regime to a more mandatary one in terms of incorporating ESG (Hazen, T.L., 2020). We are now seeing more than ever, government led mandates on issues concerning ESG rather than consumer or shareholder pressure (Hazen, T.L., 2020). The European Union Environmental Taxonomy defines criteria for activities which are primarily economic that are aligned with a net zero trajectory by 2050 and establishes six climate and environmental objectives (Lucarelli, C., 2020). Companies situated within the EU that are aligned with this trajectory must abide to these objectives. The six objectives are as follows;

1). Climate change mitigation

2). Climate change adaption

3). Sustainable use and protection of water and marine resources

4). Transition to a circular economy

5). Pollution prevention and control

6). Protection and restoration of biodiversity and ecosystems

(Lucarelli, C., 2020)

These six objectives focus mainly on the environmental aspect of ESG targeting specific aspects that promote sustainable practices for firms. The UK has taken a similar approach with their Green Taxonomy which is used to provide a shared framework which aims to tackle the growing

issue of greenwashing, increase efforts to address climate change as well as provide direct help to investors and companies who take part in projects that are sustainably driven (Ren, R., 2020). Another aspect of the EU taxonomy is the Minimum Safeguards. This is a set of performance criteria which ensures that investments being viewed as sustainable in accordance with the six objectives also meet social requirements (Dumrose, M., 2022). These can range from labour and human rights, anti-corruption, non-compliant taxation practices and competition. However, the four main criteria used in assessing one's compliance with the minimum safeguards are taxation, corruption/bribery, fair competition and human/worker rights (Dumrose, M., 2022). This deals directly with the social aspect of ESG by making sure that social norms are not violated. It is also important to note that the minimum safeguards provide an overview of requirements that ESG driven economic activities must abide however they do not cover all the basis for more strict requirements set out by EU law. These include; the International Bill of Human Rights, The OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, and the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work (Dumrose, M., 2022).

The European Commission has also recently released the "Action Plan on Financing Sustainable Growth". Through its initial release in 2018, the EU commission aimed to incorporate sustainability into risk management while also reorienting capital flows towards a more environmentally friendly economy (Claringbould, D., 2019). Its key goals are as follows;

1). Establishing a clear and detailed EU Taxonomy, a classification system for sustainable activities

2). Creating an EU Green Bond Standard and labels for green financial products

3). Fostering investment in sustainable projects

4). Incorporating sustainability in financial advice

5). Developing sustainability benchmarks

6). Better integrating sustainability in ratings and market research

7). Clarifying asset managers and institutional investors duties regarding sustainability

8). Introducing a 'green supporting factor' in the EU prudential rules for banks and insurance companies

9). Strengthening sustainability disclosure and accounting rule making

10). Fostering sustainable corporate governance and attenuating short-termism in capital markets (European Commission, 2023)

Securities and Exchange Commission

JP Morgan, along with every other US based company must abide with the mandatory regulatory reporting issued by the US Securities and Exchange Commission (SEC). Although it can be argued that the US mandating on ESG related regulations is not as in depth as the EU, there are still a number of regulations that have been put in place which companies in the US must abide to (Ho, V.H., 2022). The SEC has detailed their regulations on ESG integration which include a recent house bill that has passed mandating companies to complete ESG disclosures in their SEC filings (Rose, A.M., 2020). This particular ESG disclosure regime follows a framework developed by the SEC and will vary with company's individual voluntary sustainability reports that they may already be making public (Ho, V.H., 2022). The benefit of incorporating the SEC mandated ESG disclosures in companies' filings is that it would make comparison across

companies easier for investors as it would follow the same structure and combat the growing issue of selective ESG disclosure, also known as greenwashing.

In terms of the environmental aspect within ESG, the SEC has mandated that companies are now required to disclose certain climate related information. This came into effect on March 21st, 2022 with key proposed disclosures including (Fairfax, L.M., 2022):

- Climate-related risks and their actual or likely material impacts on business, strategy, and outlook
- Details about governance practices on climate-related risks and relevant risk management processes
- Scope 1 and Scope 2 greenhouse gas emissions, which would require attestation reports for accelerated filers
- Scope 3 emissions if either of two conditions are present: 1) If Scope 3 emissions are material to the company or 2) if the company has set an emissions target or goal that includes Scope 3 emissions
- Certain climate-related financial statement metrics and related disclosures in a note to audited financial statements
- Information about climate-related targets and goals, and transition plan, if any (spglobal.com)

Principals for Responsible Investment

Another key agreement in ESG integration, particularly for the support of corporate govenrnace, is the Principals for Responsible Investment. The Principals for Responsible Investment (PRI) is an agreement supported by the UN that consists of a network of international financial institutions which work in conjunction with one another implementing the six key principles. These six principles consist of;

1). Incorporate ESG issues into investment analysis and decision-making processes

2). Be active owners and incorporate ESG issues into ownership policies and practices

3). Seek appropriate disclosure on ESG issues by the entities invested in

4). Promote acceptance and implementation of the Principles within the investment industry

5). Work together to enhance effectiveness in implementing the Principles

6). Report on activities and progress towards implementing the Principles (PRI.com)

These set of principles attempt to directly address the issues of corporate governance by tackling them head on and promoting more transparency and accountability within investment practices (Gond, J.P. and Piani, V., 2013). By incorporating these CSR and ESG related issues into decision making processes and investment analysis, the PRI sets out to develop a more sustainable global financial system (Majoch, A.A., 2017). According to PRI growth, there are more than 3000 service providers and institutional investors that have signed onto the PRI agreement from the years of 2006 to 2021(Johnson, C., 2020). Furthermore, as of "November 2019, over 2,250 investment organisations, representing over US$85tn, had signed up to the six UNPRI principles" (Johnson, C., 2020). As well as this, there has been a 79.5 trillion dollar

increase in assets under management for these investors from the year 2006 to 2019 (Giese, G., 2019). Factors such as these show the massive growing attention companies are giving to issues related to ESG as well as government entities which are setting more regulations within the three sectors of ESG.

Stakeholder and Legitimacy Theory

Stakeholder Theory states that citizens, communities and employees should have equal importance in business as shareholders (Junius, D., 2020). This theory originated by R. Edward Freeman in 1984 and has since been regarded as one of the earliest developments of ESG and sustainability reporting (Freeman, R.E., 2010). Freeman emphasised that firms should not only be responsible for their shareholders but also have a direct accountability for what he referred to as ‘stakeholders’ which included, political parties, government, employees, suppliers, customers and communities (Freeman, R.E., 2010). This relates directly to social aspect of ESG as stakeholder theory enforces the significance and importance of incorporating societal interests within business operations (Freeman, R.E. and Dmytriyev, S., 2017). If a firm is shown to and known by the public to conduct their business with a great deal mindfulness concerning greater society as well as the community in which they operate in, overall brand value and reputation will improve along with it (Freeman, R.E., 2010).

Similarly, to Stakeholder Theory, another theory that directly relates to the social aspect within ESG is Legitimacy Theory. Legitimacy Theory states that companies can be defined by their actions and that there is a “social contract which motivates actions done within companies to be socially accepted by external parties” (Caesaria, A.F. and Basuki, B., 2017). This can also be

described as being “legitimate”. This theory focuses on a company’s interactions with society. This directly relates to the concept of CSR which details the need for companies to be more socially responsible. If an organisation or company is seen by society to not uphold social norms or values, there can be immense repercussions such as sanctions as well as the loss of society as not only consumers but also as a supporting system (Caesaria, A.F. and Basuki, B., 2017). A few ways in which a company can prove its legitimacy is through compliance with regulations, publication of ESG scores and public reporting on CSR measures (Lagasio, V. and Cucari, N., 2019). Through this, firms can ensure ethical business practices which in turn can increase overall trust and reputation.

Measuring Corporate Reputation and Firm Valuation

Reputation in financial service companies is vital to success. How they are viewed by society, their shareholders, their customers as well as their individual employees has a direct impact on their performance and productivity (Fombrun, C.J., 1996). There are multiple elements to consider when determining a company’s reputation. A few of them may be “the extent to which the firm is well known; good or bad, reliable, trustworthy, reputable and believable” (Brown, S.P., 1995). These attributes can be grouped under both non-economic and economic variables. Factors such as ESG and CSR would fall under non-economic variables. Another element to consider when looking at a firm’s reputation is past actions (Caruana, A. and Chircop, S., 2000). The benefit of incorporating various ESG measures within corporate firms increases their moral capital which can directly reduce negative valuations by both consumers and shareholders (Rehman, Z.U., 2020). Similar to ESG, firm reputation can also be difficult to measure (Zhang, Y. and Schweitzer, F., 2019). With the rise of social media, the public have been able to gain

insights into firms' practices and business models that would otherwise be difficult to gain direct access to (Benitez, J., 2020). In a new global age of transparency, reputation has become integral to the success of any business or entity. Another significant factor which demonstrates the importance of reputation is customer loyalty (Weiwei, T., 2007). A study which investigated the role of corporate reputation in customer loyalty within the South African banking sector found that with such a competitive sector it is integral that companies are doing all they can to improve retention and attraction from their customers (Els, A.J.T., 2023).

Previous literature has focused on the relationship between a company's environmental performance and their market value. This tended to look at two main components; the analysis of the effect of environmental performance on the market value of a publicly traded firm, or the comparison of financials with environmental performance over time (Konar, S. and Cohen, M.A., 2001). When assessing a company's firm valuation, it is important to look at their market capitalisation. This refers to the value of a company which is publicly traded on the stock market. This quantitative, economic variable is calculated by multiplying the current share price by the total number of shares (Cole, S., 2012). Generally, companies which tend to have larger market capitalisation represent longer history in business and tend to be companies which are well established as well as safer investments (Cole, S., 2012). This is also where reputation comes into question as reputation and market capitalisation often have a positive correlation (Black, E.L., Carnes, T.A. and Richardson, V.J., 2000).

Methodology

In this study I aim to investigate how the three chosen financial services of JP Morgan, HSBC and Barclays consider factors of ESG within their business models and how this has grown and developed in recent years. I will be looking at how these firms in particular use annual ESG reporting as a tool for investors, employees and the wider public to assess the extent and effectiveness of their individual approaches to ESG integration. I will also investigate the ESG ratings calculated by three main agencies; Morgan Stanley Capital International (MSCI), Sustainalytics and S&P Global Ratings ESG Evaluation; all three of which appear in most recent ESG reporting among the chosen financial service companies. I intend to compare most recent ESG reports published in 2022 with the earliest ESG reports published from all three companies in order to get a sense of how each company has improved and or increased overall efforts in ESG across all areas of business. This set of primary data will provide an insight into the growing role of ESG in financial service companies.

When studying the relationship between a firm's ESG reporting and their valuation/ reputation I will be comparing the market capitalisation of each firm from the year of publication of initial ESG reports with the latest year of ESG report publication. This will give an indication if there is any correlation between an advancement in ESG reporting and firm valuation shown through shares. It may also suggest the impact on reputation as increased market capitalisation will mean safer investment as well as improved recognition in this particular sector. Furthermore, I will use a number of secondary sources through a comprehensive literature review on how ESG affects sector risk, reputation and access to capital and primary. One limitation of this study could be the

divergence of ESG scoring methods. Another could be the potential bias of the financial service companies listed in this study through publishing the achievements and ESG targets met and not sharing areas for improvement or aspects within their business which have not yet met targets.

ESG Reporting and Market Capitalisation by Firm

JP Morgan

JP Morgan Chase & Co. is a well-established multinational financial services firm. It is an American establishment and known as one of the largest banks is the USA (Kacem, O. and El Harbi, S., 2023). The firm has, like many financial service companies, aimed to integrate matters of ESG into their business model. With annual ESG reports, JP Morgan highlights the steps they are taking to consolidate business wide efforts in all areas of ESG. As well as the report, JP Morgan also emphasises that information on their ESG practices is also shared through various press releases, climate reports, direct conversations with their shareholders, company website and also through proxy statements. JP Morgan publishes all of their ESG reports online through their reporting archive. The first ESG report published by the company was in 2015 and is a 28-page document setting out the companies support for their surrounding community, investment in their employees and the management of their operational footprint. As well as the first ESG report being published in 2015, the company also launched a dedicated ESG information page on their website in 2015 in order to allow the public access to the range of resources and

information on the steps being taken to promote and integrate all areas of ESG within the company.

The most up to date annual reporting document is from December 31, 2022 which is a 74-page document detailing the steps the company has taken to improve the environmental, social and corporate governance elements of the company and the summary of targets met as well as future targets set, summarised in figure 3. It is noted that the report has “been informed by the Global Reporting Initiative (GRI) and relevant Sector Standards, as well as the Sustainability Accounting Standards Board (SASB)” (JP Morgan ESG Report, 2022). Along with the assistance of ESG rating agencies and disclosure frameworks, JP Morgan has detailed its use of external research, engagement and evaluation practices and has also emphasised this is in conjunction with the mandatory reporting under the SEC. JP Morgan has also published on their website a document on ESG Integration which has been updated in April 2023. This document details the company’s approach to environmental, social and corporate governance and lists the specific ESG factors in which they consider. Air pollution, waste-water management and biodiversity impacts are the three main environmental considerations. Product safety, diversity and inclusion and local community impacts are the main social considerations. And finally, board composition, executive remuneration and capital allocation are the main considerations in terms of improvements in corporate governance. (ESG integration at J.P. Morgan Asset Management, April 2023)

Based on the information available online, the public has access to the most recent up to date scorings of JP Morgan’s external ESG ratings as well as access to market capitalisation values

displayed in figure 2. JP Morgan's ESG risk rating was scored at 29.3 by Sustainalytics as of June 1st 2023 (Sustainalytics.com, 2023). This indicates that the firm sits in the medium risk threshold. This has been calculated through a comprehensive framework looking at over 70 management indicators. The MSCI rating of JP Morgan has been most recently updated in May of 2023 through the firms ESG Fund report. The company was given a rating of "A" based on an ESG quality score of 6.8 out of 10 (ESG Fund Report, May 2023). Through the alphabetical rating of "A", with the highest score being "AAA", JP Morgan ranks within the 63rd percentile globally when comparing the firm with how others have ranked across the MSCI's ESG fund universe. Lastly, according to Statista Research Department, JP Morgan received a score of 34 by the S&P Global Ratings ESG Evaluation as of July 5th, 2023 (Statista Research Department, Jul 5, 2023).

JP Morgan Market Capitalisation

2015	$ 202.01 billion
2022	$ 466.61 billion

Figure 2 - Table showing JP Morgan market capitalisation in USD for the years of 2015 and 2022 (Source: https://companiesmarketcap.com/jp-morgan-chase/marketcap/)

	JP Morgan ESG Progress 2022
Environmental	- $176 billion spent towards $1 trillion Green target - Launched Carbon Assessment Framework - Published net-zero aligned portfolio level emission intensity targets for three new sectors (Aviation, Cement, Iron & Steel) - Began process of implementing internal price on carbon - Met goals to source renewable energy to meet 100% of the company's global power needs annually and achieve operational carbon neutrality - Divert 100% of e-waste from landfills - Purchase 100% of paper used from certified sources - Source renewable energy for 100% of the company's global power needs - Creation of net-zero branch pilots
Social	- $29 billion worth of progress toward five-year Racial Equity Commitment - Investing in Minority Depository Institutions and Community Development Financial Institutions - Launched Special Purpose Credit Programme (SPCP) which helps increase home ownership among disenfranchised communities in the US as well as helping to grow small businesses - Opened 14 Community Centre Branches in underserved communities - Work experience and mentoring for young people through the Fellowship Initiative - $125 million donated to strengthen the capacity of community colleges across the US - Launched Morgan Health in 2021 to help innovate and improve the quality, equity and affordability of employer-sponsored health care and address the rising costs of the U.S. health care system
Governance	- Employ third party ESG rating agencies in order to improve transparency - Ranked in the top 20 of fortune 500 companies for political disclosure and accountability in 2022 - Creation of the Office of Diversity, Equity & Inclusion - Data privacy through Firmwide Internal Policy on Personal Information which is applied globally - Creation of the Information Security Program which aims to alleviate issues in cybersecurity

Figure 3 - Table summarising ESG driven progress of JP Morgan for the year of 2022 (Source: JP Morgan ESG Report 2022) (Source: www.jpmorganchase.com)

One key section that stood out when assessing JP Morgan's 2022 ESG Report was the percentage of Board of Directors which were White in comparison to Hispanic, Asian, Black and Other displayed in figure 4. A total of 91% of US based JP Morgan Board of Directors were white. The other 9% were Black. However, 0% of JP Morgan board of Directors were of Hispanic, Asian or other backgrounds. A key component of good corporate governance is diversity of board members. As well as this, the percentages of US based employees which are LGBTQ+, military veterans and people with disabilities are all below 10% (shown in figure 5). This could be raised as an area for improvement in terms of diversity and inclusion efforts. This deals with more of the social issues within the company as employee diversity and inclusion is key within ESG. There have been numerous studies on the relationship between board diversity and firm performance and reputation. Among these studies is an investigation carried out in 2003 among fortune 1000 firms at the time which looked at the link between firm value and board diversity (Carter, D.A., Simkins, B.J. and Simpson, W.G., 2003). One of the key findings of the paper included "significant positive relationships between the fraction of women or minorities on the board and firm value" (Carter, D.A., Simkins, B.J. and Simpson, W.G., 2003).

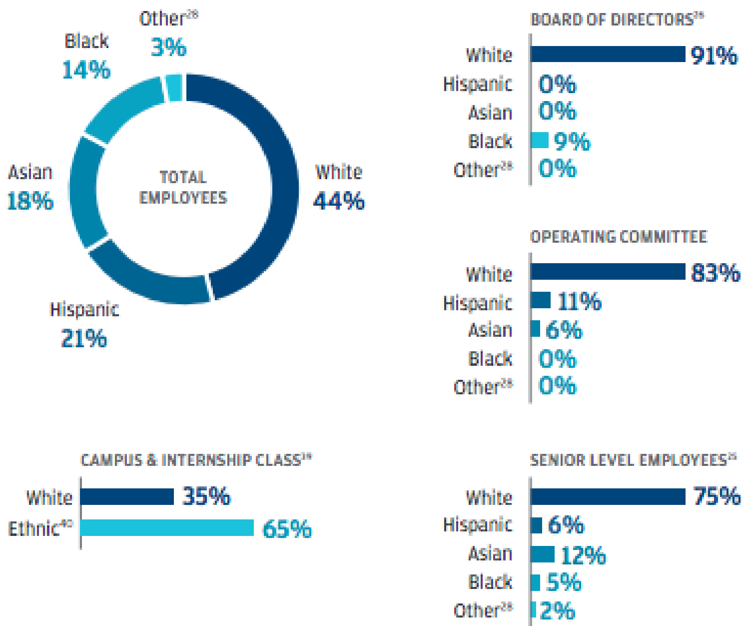
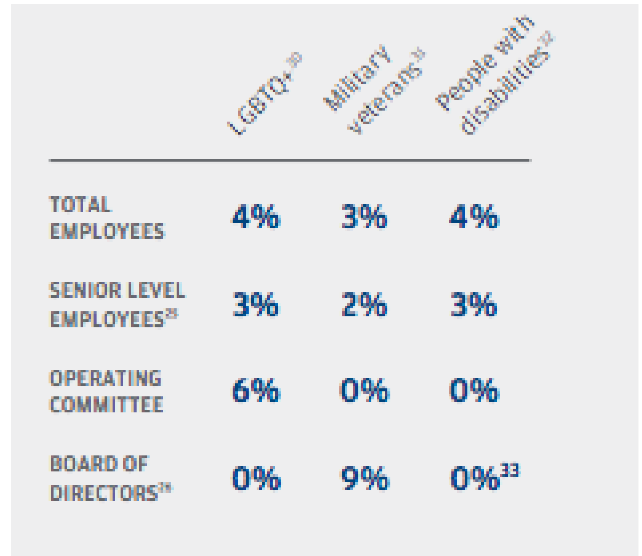


Figure 2 - JP Morgan Race and Ethnicity Data for all US employees (Source: JP Morgan ESG Report 2022) (Source: www.jpmorganchase.com)



	LGBTQ+[30]	Military veterans[31]	People with disabilities[32]
TOTAL EMPLOYEES	4%	3%	4%
SENIOR LEVEL EMPLOYEES[25]	3%	2%	3%
OPERATING COMMITTEE	6%	0%	0%
BOARD OF DIRECTORS[26]	0%	9%	0%[33]

Figure 5 - Percentage of JP Morgan Employees (US based) that are LGBTQ+, Military Veterans, People with Disabilities (Source: JP Morgan ESG Report 2022) (Source: www.jpmorganchase.com)

HSBC

HSBC is a multinational financial services group and universal bank. With headquarters in London, HSBC (Hongkong and Shanghai Banking Corporation) began its origins in British Hongkong in the late 19th century and has since become one of the largest domestic banks in the UK. Similar to JP Morgan, HSBC releases an annual ESG report on their own approaches to ESG with the latest one carried out in 2022. This 54-page document details the company's approach to the environment, customers, employees and governance, key highlights of accomplishments and targets can be seen through figure 8. The review sets out and explains how the company aims to achieve and deliver their strategy in a way that is sustainable. Through the HSBC reporting archive, the company has made public all reporting's concerning ESG online with the first ESG Supplement published in April 2017. In addition to this, market capitalisation has also been made public and HSBC market capitalisation values can be shown in figure 7 for the years of 2017 and 2022.

As well as the review that is done internally, the company has also published four of their ESG ratings that they have acquired through various third-party rating schemes, as shown in figure 6. These include the Carbon Disclosure Project, MSCI, Sustainalytics and S&P Global Ratings ESG Evaluation. The results of the four ratings are shown below in figure 6 with the latest update of these results being carried out in June 2023. The Carbon Disclosure Project is a scoring agency which assesses companies on their environmental stewardship. Companies that which to be scored by CDP will be presented with sector specific questions based on three key environmental issues; Climate Change, Water and Forests. Based on the responses, the CDP will

then assign the company to its relevant level. The four levels are Disclosure, Awareness, Management and Leadership in ascending order. Management level is given the score of "B" which "indicates that a company is showing some evidence of managing its environmental impact but is not undertaking actions that mark it out as a leader in its field (Leadership, A score) (cdp.net).

Agency	Carbon Disclosure Project
Rating	B
Agency	MSCI
Rating	AA
Agency	Sustainalytics
Rating	20.4 (medium)
Agency	S&P Global Ratings ESG Evaluation
Rating	77

Figure 6 - HSBC ESG Ratings as of June 2023 (Source hsbc.com)

HSBC Market Capitalisation

2017	$ 159.97 billion
2022	$ 150.21 billion

Figure 7 - Table showing HSBC market capitalisation in USD for the years of 2017 and 2022 (Source: https://companiesmarketcap.com/hsbc/marketcap/)

	HSBC ESG Progress 2022
Environmental	- Since 2020, provided and facilitated $210.7bn of sustainable finance and investment towards ambition of $750bn to $1tn by 2030 - Updated energy policy as an important mechanism to help deliver financed emissions targets and phase down fossil fuel financing in line with HSBCs net zero ambition, and introduced further restrictions for thermal and metallurgical coal - Introduced on-balance sheet financed emissions targets for eight sectors, noting the limitations of evolving methodologies and data quality
Social	- In 2022, 33.3% senior leadership roles were occupied by women, with a target to achieve 35% by 2025. Put in place important foundations to support goal of doubling the number of Black employees in senior leadership roles by 2025 - Employee engagement increased to 73% in 2022 following a five-point increase from 2019, and was three points above benchmark -
Governance	- Conducted a review of the company's salient human rights issues, including stakeholder consultation with non-governmental organisations ('NGOs') and potentially affected groups - Customer satisfaction performance, using the net promoter score, improved in many markets -

Figure 8 -- Table summarising ESG driven progress of HSBC for the year of 2022 (Source: HSBC ESG Report 2022) (Source: www.sec.gov) (Source: www.hsbc.co.uk)

Barclays

Barclays is the third multinational financial service group I will be looking at in this study. Similar to HSBC, Barclays is headquartered in London, England and operates as two divisions, Barclays international and Barclays UK. Both of these are supported under the authority of Barclays Execution Services. Barclays releases an in depth annual ESG report with the latest being released in 2022 as a 526-page report on the progress the company is making towards its individual ESG goals, summarised in figure 10.

The company has made all of their reporting public on the internet through their annual reports archive. The earliest sign of ESG reporting within Barclays goes back to 2016 with the company's first ever "Environmental Social Governance Supplement". Similar to the most recent Barclays ESG report published in 2022, this report sets out both future targets for the company as well as met targets concerning the three focus areas of ESG. This report however is much less extensive and is comprised of only 51 pages in comparison to the lengthy 526-page report published in 2022. A few of the topics discussed in this report range from financing social infrastructure, green bonds and environmental financing, access to financial and digital empowerment as well as global reporting initiatives (GRI). Barclays included their progress in meeting ESG targets for the year of 2016 which are listed as follows:

- Delivered £21.1bn of financing in select social and environmental Segments

- Helped clients raise £1.5bn in Green Bonds and continued to grow our Treasury Green Bond portfolio
- Developed High Growth Entrepreneur lending framework
- Launched new Impact Series on key ESG topics
- Launched Impact Investing proposition
- Signed up to Principles for Responsible Investment (Barclays PLC Environmental Social Governance Supplement, 2016).

As well as the progress recorded in all three areas of ESG, Barclays also included a detailed summary of their financial performance in their most recent ESG report for the year of 2022. It was noted that "total income increased 14% to £25.0bn versus prior year, with income momentum across all businesses" (Barclays annual ESG Report, 2022). It can be argued that ESG factors have played a role in the increase of total income however there may be more factors that also contributed to this. In addition to this Barclays market capitalisation can be seen below in figure 9 for the year of 2016 and 2022. The year 2016 relates to the first year of ESG report publication and 2022 refers to the most recent year of ESG report publication.

In terms of Barclays external ESG ratings, the firm has been given a 22.8 medium risk rating by Sustainalytics as of May 20th, 2023 (Sustainalytics.com, 2023). The firm has been ranked by industry as being 293 out of 997 banks ranked by Sustainalytics, with 1 equalling the lowest risk. I.e. the lower the rank the lower the risk. In terms of MSCI's rating, Barclays scored a as a "Leader" with a rating of "AA" as of 2023 (knowesg.com, 2023). Lastly, the S&P Global

Ratings ESG Evaluation have rated the firm a score of 75 since latest update of 2022 (Barclays PLC Annual ESG Report 2022). The firm has reported a slight decline in this figure as the year before in 2021, Barclays was rated as 78 on the score by S&P.

Barclays Market Capitalisation

2016	$ 31.29 billion
2022	$ 45.48 billion

Figure 9 - Table showing Barclays market capitalisation in USD for the years of 2016 and 2022 (Source: https://companiesmarketcap.com/barclays/marketcap/

	Barclays ESG Progress 2022
Environmental	- 100% renewable electricity sourcing for all Barclays global real estate portfolio - Signed a 10-year Power Purchase Agreement which will support Creag Riabach, an onshore wind farm project in Scotland - Reduced air travel by 73% compared to 2018 baseline - No financing to existing clients that engage in thermal coal mining - Campaign announced to increase investment into global climate tech start-ups to £500m through Sustainable Impact Capital portfolio by the end of 2027
Social	- Launched partnerships with historically Black Colleges and Universities and Hispanic-Serving Institutions in the US - Barclays Military and Veterans Outreach programme – supported 45 active duty service members into permanent roles at Barclays - Ranked 82% on the Inclusion Index as well as 86% on Wellbeing Index in 2022 - More than 30,000 businesses supported through educational content and activities relating to navigating current economic challenges - Participation in the Grace Hopper Celebration Event in the US, which focuses on supporting women and non-binary technologists with careers in Technology - Every colleague continues to have a mandatory inclusion performance objective against which they are assessed as part of their performance review
Governance	- Achieved ambition to double the number of Black Managing Directors in the US and UK to 18 by the end of 2022 - Increased our female representation at Managing Director /Director grades to 29% - Board members participated in focus sessions on key 'horizontal topics' such as cyber, data and climate to understand the impact of these and where opportunities and risks may arise. - Extensive review of Directors' tenure and effectiveness, and identifying candidates for election or re-election

Figure 10 - Table summarising ESG driven progress of Barclays for the year of 2022 (Source: Barclays ESG Report 2022) (Source: www.barclays.co.uk)

ESG Ratings Comparison

	MSCI	Sustainalytics	S&P Global Ratings ESG Evaluation
JP Morgan	A	29.3 (Medium)	34
HSBC	AA	20.4 (Medium)	77
Barclays	AA	22.8 (Medium)	75

Figure 11 - Comparison table of most recent ESG ratings

Through compiling three of the most recent ESG ratings published for JP Morgan, HSBC, and Barclays, we can begin to compare scores across this sector. It is clear that HSBC and Barclays have obtained scores that are more similar in comparison to JP Morgan. Both HSBC and Barclays both received an MSCI score of "AA" which indicates that the two firms are considered "Leader" meaning that they are "leading its industry in managing the most significant ESG risks and opportunities" (msci.com). In comparison, JP Morgan received an "A" rating by MSCI which indicates that it is a company "with a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers" (msci.com). The industry peers in question may have included HSBC and Barclays as two examples of how other multinational financial service firms manage ESG risk and opportunities. As well as this, JP Morgan received a lower score by Sustainalytics as a score higher to 100 indicates increased ESG risk.

A few factors that can be used to explain this difference may be that JP Morgan is considered a larger company than both HSBC and Barclays as JP Morgan obtains a larger sum of assets and operates the largest investment bank in the world by revenue. This in turn increases the scope of ESG integration. Another factor that could explain the difference in ratings is the varying ESG regulation which is mandated in country specific locations. Although all three of these firms are multi-national and conduct business across continents, there are different regulatory measures put in place within the countries they are headquartered in. For example, with JP Morgan headquartered in the United States of America, they would fall under the regulations of the SEC, whereas HSBC and Barclays are both headquartered in the United Kingdom which follow regulation mandated from the UK government. In terms of the Sustainalytics ratings for the three companies, the variation in results were very minor. All three companies had a score of Medium which signifies that the "enterprise value is considered to have a medium risk of material financial impacts driven by ESG factors" (sustainalytics.com).

Conclusions and Discussions

Through the relevant literature studied and the evidence gathered from the reporting of the three firms in question, it is clear that ESG reporting may affect market capitalisation and reputation in some cases. Through the analysis of the multiple ESG reports by company, it is clear that there has been significant increase in the amount of reporting of ESG within financial services as well as massive upturn in detail of these reports. By comparing the first ESG reports published from JP Morgan, HSBC and Barclays with their most recent reports, we can see that the growing role of ESG in this sector is becoming a substantial source which can be used to add value to a company's overall reputation and standing. There were key changes that I noticed within the way ESG reporting had grown in all three entities. The first being a clear disclosure of third-party ratings from at least three key agencies. In the set of initial ESG reports dating back to 2015 in the case of JP Morgan, 2017 for HSBC and 2016 for Barclays, there were no signs of impartial information regarding the successes or failures of the ESG implementation or potential risk management in the ESG reports. A reason for this may have been that as the importance of ESG has grown for both companies and investors. There has become more of a need for reliability and practices of fact checking in aspects of ESG which are difficult to measure in comparison to say financial growth. This is shown through the inclusion of these third-party ratings in most recent versions of ESG reports within these financial services.

Another difference is the inclusion of specific case studies within the reporting. All companies have included a variety of relevant case studies in most recent ESG reports in order to effectively validate and confirm specific claims which have been made. While there were some mentions to

case studies in the sets of first ESG reporting within all three companies, the extent and detail of these were significantly lower in comparison to most recent reporting. Aside from ratings by third party agencies, it is important to note that there is the issue of selective ESG disclosure when assessing and comparing ESG scores across companies. Measuring a firms ESG performance against targets can be difficult and lack of transparency is one of the main obstacles investors face when tasked with ESG investing. As well as this, ESG scoring is based on non-financial, intangible factors which can be more difficult to quantify. When studying the ESG ratings of the three companies from Sustainalytics, MSCI and S&P Global there has been little correlation between ESG rating and market capitalisation found. JP Morgan has scored lowest by all three agencies in comparison to HSBC and Barclays (figure 11) yet is the firm with the largest increase in market capitalisation (figure 2). As well as this, HSBC received the highest ratings from Sustainalytics, MSCI and S&P Global out of the three companies (figure 11) yet reported a slight decrease in market capitalisation when comparing the year of 2017 and 2022 (figure 7). One reason which may explain this is the divergence of ESG rating methods. With a vast number of agencies rating ESG in different ways and looking at different factors, it can be more difficult to identify a clear correlation between rating and market capitalisation as the sheer number of rating methods are too large.

Through studying the values of market capitalisation from each firm it was found that both JP Morgan and Barclays had seen increases in their market capitalisation from the initial year of ESG report publication in comparison to 2022 which is the latest ESG reporting year. This can indicate a positive correlation between increase in ESG reporting and market capitalisation. HSBC however reported a slight decrease in market capitalisation from 2017 to 2022 (figure 7).

This may be due to a number of external factors which may be unrelated to increased ESG reporting. It is clear that while ESG reports can have an impact on firm reputation, there is less of a link between ESG integration and firm performance. This is due to the fact that is more difficult to assess the clear link between intangible ESG factors with the tangible increase or decrease in a firm's monetary success along a specific time frame. However, it can be argued that overall firm reputation can improve performance over time.

Bibliography:

Arvidsson, S. and Dumay, J., 2022. Corporate ESG reporting quantity, quality and performance: Where to now for environmental policy and practice?. Business Strategy and the Environment, 31(3), pp.1091-1110.

Baldi, F. and Pandimiglio, A., 2022. The role of ESG scoring and greenwashing risk in explaining the yields of green bonds: A conceptual framework and an econometric analysis. Global Finance Journal, 52, p.100711.

Barzuza, M., Curtis, Q. and Webber, D.H., 2019. Shareholder value (s): Index fund ESG activism and the new millennial corporate governance. S. Cal. L. Rev., 93, p.1243

Benitez, J., Ruiz, L., Castillo, A. and Llorens, J., 2020. How corporate social responsibility activities influence employer reputation: The role of social media capability. Decision Support Systems, 129, p.113223.

Berg, F., Koelbel, J.F. and Rigobon, R., 2022. Aggregate confusion: The divergence of ESG ratings. Review of Finance, 26(6), pp.1315-1344.

Black, E.L., Carnes, T.A. and Richardson, V.J., 2000. The market valuation of corporate reputation. Corporate Reputation Review, 3, pp.31-42.

Blowfield, M., 2005. Corporate social responsibility: reinventing the meaning of development?. International Affairs, 81(3), pp.515-524.

Brown, S.P., 1995. The moderating effects of insupplier/outsupplier status on organizational buyer attitudes. Journal of the Academy of Marketing Science, 23(3), pp.170-181.

Bruno, M. and Lagasio, V., 2021. An overview of the european policies on esg in the banking sector. Sustainability, 13(22), p.12641.

Caesaria, A.F. and Basuki, B., 2017. The study of sustainability report disclosure aspects and their impact on the companies' performance. In SHS Web of Conferences (Vol. 34, p. 08001). EDP Sciences.

Carter, D.A., Simkins, B.J. and Simpson, W.G., 2003. Corporate governance, board diversity, and firm value. Financial review, 38(1), pp.33-53.

Caruana, A. and Chircop, S., 2000. Measuring corporate reputation: A case example. Corporate reputation review, 3, pp.43-57.

Cicchiello, A.F., Marrazza, F. and Perdichizzi, S., 2023. Non-financial disclosure regulation and environmental, social, and governance (ESG) performance: The case of EU and US firms. Corporate Social Responsibility and Environmental Management, 30(3), pp.1121-1128.

Claringbould, D., Koch, M. and Owen, P., 2019. Sustainable finance: The European Union's approach to increasing sustainable investments and growth–opportunities and challenges. Vierteljahrshefte zur Wirtschaftsforschung, (2), pp.11-27.

Cole, S., 2012. The impact of reputation on market value. World Economics-Abingdon, 13(3), p.47.

De Silva Lokuwaduge, C.S. and De Silva, K.M., 2022. ESG risk disclosure and the risk of green washing. Australasian Accounting, Business and Finance Journal, 16(1), pp.146-159.

Dumrose, M., Rink, S. and Eckert, J., 2022. Disaggregating confusion? The EU Taxonomy and its relation to ESG rating. Finance Research Letters, 48, p.102928.

Eccles, R.G., Lee, L.E. and Stroehle, J.C., 2020. The social origins of ESG: An analysis of Innovest and KLD. Organization & Environment, 33(4), pp.575-596.

Els, A.J.T., 2023. Determining the role of corporate reputation in customer loyalty within the South African banking sector (Doctoral dissertation, North-West University (South Africa)).

Escrig-Olmedo, E., Fernández-Izquierdo, M.Á., Ferrero-Ferrero, I., Rivera-Lirio, J.M. and Muñoz-Torres, M.J., 2019. Rating the raters: Evaluating how ESG rating agencies integrate sustainability principles. Sustainability, 11(3), p.915.

Esty, D.C. and Cort, T. eds., 2020. Values at work: Sustainable investing and ESG reporting. New York, NY, USA: Palgrave Macmillan.

Fairfax, L.M., 2022. Dynamic Disclosure: An Exposé on the Mythical Divide Between Voluntary and Mandatory ESG Disclosure. Tex. L. Rev., 101, p.273.

Filbeck, A., Filbeck, G. and Zhao, X., 2019. Performance assessment of firms following sustainalytics ESG principles. The Journal of Investing, 28(2), pp.7-20.

Fombrun, C.J., 1996. Reputation: Realizing value from the corporate image.

Freeman, R.E. and Dmytriyev, S., 2017. Corporate social responsibility and stakeholder theory: Learning from each other. Symphonya. Emerging Issues in Management, (1), pp.7-15.

Friede, G., Busch, T. and Bassen, A., 2015. ESG and financial performance: aggregated evidence from more than 2000 empirical studies. Journal of sustainable finance & investment, 5(4), pp.210-233.

Fulton, M., Kahn, B. and Sharples, C., 2012. Sustainable investing: Establishing long-term value and performance. Available at SSRN 2222740.

Giese, G., Lee, L.E., Melas, D., Nagy, Z. and Nishikawa, L., 2019. Foundations of ESG investing: How ESG affects equity valuation, risk, and performance. The Journal of Portfolio Management, 45(5), pp.69-83.

Gond, J.P. and Piani, V., 2013. Enabling institutional investors' collective action: The role of the principles for responsible investment initiative. Business & Society, 52(1), pp.64-104.

Hazen, T.L., 2020. Social Issues in the Spotlight: The Increasing Need to Improve Publicly-Held Companies' CSR and ESG Disclosures. U. Pa. J. Bus. L., 23, p.740.

Ho, V.H., 2022. Modernizing ESG Disclosure. U. Ill. L. Rev., p.277.

Johnson, C., 2020. The measurement of environmental, social and governance (ESG) and sustainable investment: Developing a sustainable new world for financial services. Journal of Securities Operations & Custody, 12(4), pp.336-356.

Junius, D., Adisurjo, A., Rijanto, Y.A. and Adelina, Y.E., 2020. The impact of ESG performance to firm performance and market value. Jurnal Aplikasi Akuntansi, 5(1), pp.21-41.

Kacem, O. and El Harbi, S., 2023. Risk governance, ethics codes and bank performance: evidence from large banks worldwide. Managerial Finance, 49(2), pp.205-226.

Khachatryan, H.V., 2022. Divergence of ESG Ratings: Foreign Regulatory Trends. Finansovyj žhurnal—Financial Journal, (5), pp.89-104.

Khan, M., 2019. Corporate governance, ESG, and stock returns around the world. Financial Analysts Journal, 75(4), pp.103-123.

Koh, H.K., Burnasheva, R. and Suh, Y.G., 2022. Perceived ESG (environmental, social, governance) and consumers' responses: The mediating role of brand credibility, Brand Image, and perceived quality. Sustainability, 14(8), p.4515.

Konar, S. and Cohen, M.A., 2001. Does the market value environmental performance?. Review of economics and statistics, 83(2), pp.281-289.

Lagasio, V. and Cucari, N., 2019. Corporate governance and environmental social governance disclosure: A meta-analytical review. Corporate Social Responsibility and Environmental Management, 26(4), pp.701-711.

Leong, S. and Hazelton, J., 2019. Under what conditions is mandatory disclosure most likely to cause organisational change?. Accounting, Auditing & Accountability Journal, 32(3), pp.811-835.

LIANG, H. and CHAN, K.C., 2022. The alphabet soup in reporting and measuring ESG.

Lucarelli, C., Mazzoli, C., Rancan, M. and Severini, S., 2020. Classification of sustainable activities: EU taxonomy and scientific literature. Sustainability, 12(16), p.6460.

Luo, L. and Tang, Q., 2022. The real effects of ESG reporting and GRI standards on carbon mitigation: International evidence. Business Strategy and the Environment.

Majoch, A.A., Hoepner, A.G. and Hebb, T., 2017. Sources of stakeholder salience in the responsible investment movement: why do investors sign the principles for responsible investment?. Journal of Business Ethics, 140, pp.723-741.

Murè, P., Spallone, M., Mango, F., Marzioni, S. and Bittucci, L., 2021. ESG and reputation: The case of sanctioned Italian banks. Corporate Social Responsibility and Environmental Management, 28(1), pp.265-277.

Pollman, E., 2022. The making and meaning of ESG. U of Penn, Inst for Law & Econ Research Paper, (22-23).

Rehman, Z.U., Khan, A. and Rahman, A., 2020. Corporate social responsibility's influence on firm risk and firm performance: the mediating role of firm reputation. Corporate Social Responsibility and Environmental Management, 27(6), pp.2991-3005.

Rose, A.M., 2020. A Response to Calls for SEC-mandated ESG Disclosure. Wash. UL Rev., 98, p.1821.

Sheehy, B., 2015. Defining CSR: Problems and solutions. Journal of business ethics, 131, pp.625-648.

Singhania, M. and Saini, N., 2022. Quantification of ESG regulations: a cross-country benchmarking analysis. Vision, 26(2), pp.163-171.

Smoleńska, A. and van't Klooster, J., 2022. A risky bet: Climate change and the EU's microprudential framework for banks. Journal of Financial Regulation, 8(1), pp.51-74.

Weber, O., 2012. Environmental credit risk management in banks and financial service institutions. Business Strategy and the Environment, 21(4), pp.248-263.

Weiwei, T., 2007. Impact of corporate image and corporate reputation on customer loyalty: A review. Management Science and Engineering, 1(2), p.57.

Yu, E.P.Y., Van Luu, B. and Chen, C.H., 2020. Greenwashing in environmental, social and governance disclosures. Research in International Business and Finance, 52, p.101192.

Zhang, Y. and Schweitzer, F., 2019. The interdependence of corporate reputation and ownership: a network approach to quantify reputation. Royal Society Open Science, 6(10), p.190570.