> Thursday, February 2nd, 2023
14:00 – 15:30
FINANCE

IÉSEG SCHOOL OF MANAGEMENT

EMPOWERING CHANGEMAKERS FOR A BETTER SOCIETY

'HOW USEFUL ARE ESG RATINGS TO MITIGATE CLIMATE CHANGE?'

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ABSTRACT

This paper calls into question the usefulness of ESG ratings to contribute to climate change mitigation. While in a net-zero transition period, such ratings should help in driving capital towards less-emitting firms, this paper shows the opposite. Using a sample of almost 3,000 companies over the 2013-2020 period representing 77\% of world market capitalization, we provide evidence that the relationship between ESG rating and carbon emissions is positive or, at the very least, insignificant in some cases. Even more surprising, our results remain true when focusing on the E (environmental) part of the ESG rating. In other words, firms with high total carbon emissions (Scope 1, 2 or both) exhibit higher (ESG/E) scores for the three main data providers we examine (Refinitiv, S\&P Global and MSCI). Our results are robust across different industries, sub-periods and regions, with a stronger effect in Asia. Despite the fact that ESG ratings include firm performance criteria well beyond GHG emissions, we show here that, as far as curbing climate change is concerned, relying on ESG ratings is unequivocally misleading.

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