

Syed, Ali Murad

**Article**

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\*Corresponding author: Ali Murad Syed,  
College of Business Administration,  
University of Dammam, Dammam,  
Saudi Arabia  
E-mail: [amsyed@uod.edu.sa](mailto:amsyed@uod.edu.sa)

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Collins G. Ntim, University of  
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## ACCOUNTING, CORPORATE GOVERNANCE & BUSINESS ETHICS | RESEARCH ARTICLE

# Environment, social, and governance (ESG) criteria and preference of managers

Ali Murad Syed<sup>1\*</sup>

**Abstract:** This study examined the inclusion of environment, social and governance (ESG) criteria in the managerial decision-making process. The integration of ESG related information for the UK and French fund managers is discussed in this study. The data regarding managerial beliefs is collected using questionnaires filled by fund managers in the UK and French markets. Overall, our findings are mixed for the significant difference in beliefs. Managers of both countries have common beliefs that the Government demands environmental and social responsibility (ESR), ESR will better manage investment risks and corporate governance (CG) will bolster long-term shareholder value. UK managers believe that CG is the fiduciary obligation of the company while French managers believe that ESR is the fiduciary obligation of the company. UK managers believe that ESR is demanded by the shareholders while French managers have a belief that CG is demanded by the shareholders. French managers have the more favourable view towards ESR. On the other hand, UK managers have balanced beliefs toward CG, and ESR.

**Subjects:** Economics; Finance; Business, Management and Accounting

**Keywords:** ESG; governance; social responsibility; beliefs; managers

### ABOUT THE AUTHOR

The focus area of our research group is corporate governance and socially responsible investments (SRI) which include financial performance of SRIs, breakdown of ESG into components and the typology of managers. Another area in which we are working is the linkage between behavioural finance and socially responsible investments.

Potential impact of inclusion of environment, social and governance (ESG) criteria in the investment decision-making process is the crux of the paper. It is equally important for policy-makers, investors and the managers involved in the investment decision-making process as the persons involved in the investment process want to do good while doing well. This paper addresses an area that is unexplored by the researchers, and knowing the perception of the managers about ESG will make them take better investment decisions.

### PUBLIC INTEREST STATEMENT

This study examined the inclusion of environment, social and governance (ESG) criteria in the managerial decision-making process. What will be the impact of integration of ESG into decision-making is one of the most relevant topics in today's financial world. In this paper, we studied the beliefs of the managers about inclusion of ESG in the investment process. We split ESG term into two components, environment and social responsibility (ESR) and corporate governance (CG) for this study and found the perception of UK and French managers about these two components. Our results showed that French managers have more favourable view towards Environment & Social Responsibility (ESR) while UK managers have more balanced views or beliefs toward CG and ESR.

## 1. Introduction

Environment, social and governance (ESG) criteria is a new dimension of Socially responsible investments (SRI). SRI is an ethical investment approach consisting of excluding certain type of industries from one's portfolio based on certain moral or ethical grounds. Herringer, Firer, and Viviers (2009) defines SRI in broader aspects that, SRI is a set of approaches which includes a particular investment selection, retention and rejection process based on conventional financial decision criteria along with moral and ESG considerations. The origin of SRI dates back to the early biblical times and then in 1800s the Quakers who snub to invest in slaves, weapons and alcohol. Opposing the alcohol and tobacco, evangelical Protestants found the first socially responsible mutual fund called the pioneer fund in 1928 (Becker & McVeigh, 1999). The modern roots of SRI traced to 1960s political environment when the women's rights, civil rights and anti-war movements heightened the awareness about SRI. Then SRI has been switched into commercial projects from the activist's movement during 1990s (Louche, 2004).

The main goal of ESG criteria or SRI investments is to influence the environment, society and company's own governance issues in a positive way. SRI is investing with one's values and screening out certain companies or industries. ESG is focusing at the environmental, social and governance factors and is simply an additional tool to evaluate companies.

In the initial stages of development, SRI focused on excluding certain companies from portfolios because of the specific nature of the business. Now by focusing on the sustainability issue with an eye towards companies' long-term potential, has broadened SRI area. Now, it is a perception that companies that exhibit strong overall environmental, social and governance record are better run, have less risk and can deliver better financial performance over the long run. There is a different viewpoint about ESG by seeing from the lens of private investors and institutional investors. Kinder and Domini (1997) argues, "ESG came largely from the institutional side", which has been uncomfortable with terms like "socially" and "responsible". They wanted an acronym that stripped away the moral aspects of what they do and made it a function of data and information. Institutions are largely phobic about values, and there is a belief that one might violate his fiduciary duties if he applied moral as opposed to investment values to the process. There are two different positions of ESG, based on origin of the term. One group argues that ESG is an advanced and broader term of SRI while other group says that SRI is a subset of ESG that focused more on various actions "rights and wrongs" that is typically a narrow, ritzier and retail oriented approach; ESG is emphasized more by institutional investors and is derived to make it a universal term that is acceptable of everyone.

Most of the arguments are in favour of first group that the term SRI is related to values and/or beliefs while ESG is more related to actions and ESG is broader term as compared to SRI. The borderline between ESG and SRI is wispy and there is a blur line between ESG and SRI or they are overlapped somewhere. ESG can be considered as a tool or technique for determining good management practices with a focus on fundamentals. Companies, which use ESG criteria as mainstream criteria in investment decisions, are integrating combined approach of SRI and governance. Today we have socially responsible companies who integrate ESG criteria in their investment approach and this shows that ESG is a term derived from SRI and in fact the extension of SRI.

Key players of the investment process in any organization are the managers. The behaviour of an organization is the equilibrium behaviour of a complex contractual system made up of maximizing agents with diverse and conflicting objectives and the managers are the focal point of the organization. An organization's survival and success depend on the ability of its managers to create sufficient wealth and satisfaction for its primary stakeholders (Clarkson, 1995). The challenge is to transform ethics into best business results. Managers should recognize what ethical practice is best suited to their business. Managers' primary concern should always be running their companies efficiently and looking for excellence in management and financial performance but with the addition of new dimension of ESG criteria into business there has been a shift in the priority of concerns. Inclusion of beliefs in economics is a "cognitive turning point" (Orléan, 2006) and economic reality cannot be understood

in terms of fundamentals alone and it also depends on beliefs. Academic findings also suggest that human beings are not as rational as traditional economics suggests. An important thing is to find the change in the values of the managers especially in relationship to ethical considerations which will make better understanding of decision-making process (Meglino & Ravlin, 1998). Investment beliefs are important because they create a context for value-creating investing (Ambachtsheer, 2005). Biases affect firm behaviour, which in turn affects return anomalies (Alti & Tetlock, 2014) and two main biases are over-confidence and over extrapolation of trends which distort managers' expectations. Petty, Unnava, and Strathman (1991) argue that a positive attitude to an object or idea holds positive evaluation of that object or idea. The more positive is the attitude towards an object or idea by an individual, the more positive attitude is likely to have towards another object or idea having an association with the first one. This is also known as expectancy value theory (Fishbein, 1963, 1967; Fishbein & Ajzen, 1975; Wilkie & Pessemier, 1973). Attitudes are based on beliefs about an object and the perception of that object in the eyes of an individual. Every individual creates some beliefs about an object and then evaluate those beliefs that is called perceived association. Perception is the process by which we acquire information about the world around us using our five senses. Expectancy value states that attitudes are developed and modified based on assessments about beliefs and values. Expectancy value theory (EVT) has three basic components. First thing is the development of a belief about any item and then response to novel information about that item. In case of existence of belief, it will be modified by new information. Second, assigning a value to each attribute and the third is the expectation based on the result of a calculation based on those beliefs and values. EVT also states that the result of the calculation, often called the "attitude", originates from the complex equations that contain many pairs of belief or values. These attitudes are based on perceived cognitive consistency and could be positive or negative depending on the perceived cognitive association with the object or idea. So, positive attitude relates to positive cognitive association.

This study tried to find answer of the research question concerning perception of fund managers regarding ESG issues and contributes to existing body of literature by examining managerial perceptions regarding different aspects of ESG indicators. A survey of French and UK markets has been done for collection of the data about investment beliefs. UK and France are considered to be the best markets for our research question as both are two major SRI markets of Europe and having different corporate governance systems and SRI approach. Both countries differ in board accountability and objectivity, corporate governance transparency, role of stakeholders and board responsibility (Weil & Manges, 2014). Government policies to encourage corporate social responsibility are also different among different countries of Europe (Knudsen, Moon, & Slager, 2015). SRI practices are also different in two countries as in France it is based on "best in class" approach as contrary to the "exclusion" approach used in UK (Crifo & Mottis, 2016). To compare these two biggest markets of ESG and SRI is the contribution of this paper. This is an untouched area with pioneering views on managers' preference towards ESG and as per authors' knowledge no other study compared the investment beliefs of the managers.

The remainder of this study is as follows. Section 2 displays the literature review; Section 3 shows the data collection and sample characteristics. Section 4 displays the findings of the study and Section 5 concludes the study.

## 2. Literature review

Recently, investors in investment decisions have recognized ESG criteria and inefficiencies exist in the behaviour of investors as exposed by existing literature regarding behavioural finance. Therefore, adaption of ESG criteria in investment decisions will reduce inefficiencies in the decision-making process as well as introduction of environment, social and governance criteria will improve the overall conduct of organizations considering all stakeholders. A number of surveys highlight the financial personals awareness and recognition of SRI domain, as a number of analysts show a strong commitment of integration of ESG criteria in the mainstream investment process (Bourghelle, Jemel, & Louche, 2009; Nofsinger & Varma, 2014). In the integration of ESG criteria in the investment process strong, ambitious and powerful decision-making plays an important role considering the

informational efficiency, to investigate the information content of fund manager decisions. Barker (1998) developed a theory of market information from qualitative information based on analysis of fund managers, financial analysts and finance directors. Author findings displays two interesting results. First, they find that raw data that flows directly from company financials to analysts is more important than processed secondary data. Second analysts' role is most important with respect to valuation benchmarks and information efficiency. Furthermore, difference of beliefs about the SRI and ESG consideration is very important for the implementation of both criterion in the investment process. A study of Koedijk and Slager (2007) investigates the investment strategies of institutional investors by selecting the organizations with clear beliefs about SRI and ESG. Study results show significant differences in beliefs and values of pension funds and asset managers regarding working of capital markets. Further findings display higher performance and alpha of pension funds with clear beliefs.

Consideration of SRI practices in the investment decision-making process is recommended by a study of De Graaf and Slager (2006) which examined the SRI implementation in the decision-making process of Institutional investors considering responsible investments and ESG issues. The authors further developed the framework for induction of value based SRI strategies. Study suggests a diverse set of strategies have different implications for analysts and fund managers. Managers must be clear about their status regarding investment decisions, for instance their objectives must be either value based or ethical. The SRI policy should share some beliefs and values regarding socially responsible investments. Study of De Graaf and Slager (2006) reviewed the SRI implementation Framework within the Pension fund. They introduce the investment managers' role in the implementation of suggested SRI framework's value, ensuring, ethical base and investment driven strategies. Results of study suggest the deep ambitions of investment managers towards implementation of the SRI framework in the investment process. An empirical Australian based study about the testation of investment attitude towards SRI and the level of investment in SRI is conducted by Vyvyan, Ng, and Brimble (2007). For empirical investigation authors collected data through survey and the get responses from 318 persons relating to investment attitudes and investment behaviour within organizations. The authors find that environment related concerns are more important for SRI investment criteria and significant differences in investor attitudes exist. Nevertheless, the authors find no significant difference between environmentalists and non-environmentalists within the context of utility scores. Finally, SRI fund managers should consider the promotion of SRI funds attributes and performance. The integration of social values in the SRI decision-making process will ultimately increase firm value in the long run.

Liondis (2005) discussed the ESG criteria inclusion in the investment decision-making process. Author surveyed 195 fund managers from around the worlds. Survey results show the growing importance of SRI investment beliefs and 39% managers believes that ESG factors are important while deciding about investment in the markets. They further believe that poor environmental and governance performance has adverse impacts on financial performance. However, it is difficult to measure the attached value of companies' performance regarding social and environmental factors. A study by Bourghelle et al. (2009) shows the fund managers' belief about ESG integration in the investment process that they have a strong belief in consideration of ESG practices but that is not on their priority list. Awareness about ESG in the organization rests mostly at lower levels or just limited to corporate affairs and brand departments, ESG should execute somehow in the head office also and a big misunderstanding about the ESG has probed out (Dowse, 2009). A study by Birgden, Guyatt, and Jia (2009) about the beliefs of fund managers documents the emerging markets equity managers' capacity of ESG criteria integration in investment process. Study results found the lake of commitment to ESG issues by most of the EME managers and managers with short-term investment horizon having less consideration of ESG issues as compared to the mangers with longer horizon investment. The managers give more importance to Corporate governance (CG) as compared to Social responsibility (ESR) in emerging markets like China, South Korea, India and Brazil. EME managers consider ESG as a tool of risk management as compared to a driver of long-term value. Another survey about ESG consideration beliefs of fund managers in the investment process is done by Amaeshi and

Grayson (2009) who suggest that asset managers have more focus on ESR consideration than CG; Although, the ESG engagement score of managers is 53% but it become 25% with the ESR consideration separately from CG. A study of ESG implementation by the Swedish state owned investors is conducted by Amaeshi and Grayson (2009) to explore belief that how the investors implement the ESG issues in investment process. Study documents the manager's belief that they do not work under the ESG concept rather with each standalone word as environment, social and governance. Many conventional managers integrate responsible investing in their investment process. ESG information is being used for managing risk and many conventional fund managers have accepted responsible investing in the investment process (van Duuren, Plantinga, & Scholtens, 2016). Authors argued that ESG investing is very much similar to conventional investing and there is a huge difference in the ways in which US and European asset managers view ESG. On the contrary, responsible investment (RI) collective beliefs currently do not provide a favourable environment for RI as a mainstream investment and should be taken into account when debating the sustainability value (Dumas & Louche, 2016).

As discussed earlier there is a need of strong commitment by the managers for ESG considerations in investment decision-making process and a study by Cadman (2011) tested the integration of ESG criteria into decision-making of responsible financial institutions. Authors identified the problems such as participation gaps between internal and external interests in the decision-making process and uncertainty with respect to participation of different stakeholders. Conclusion of the study indicates the involvement of stakeholders in the decision-making process and governance evaluation leads towards sustainable development. For the sustainable development, all attributes of ESG criteria should be implemented and understood by the investors in the market. A study by Mănescu (2011) empirically investigates the ESG attributes by selecting sample of US public listed firms over the period 1992–2008. They find a positive relationship of community relations, risk adjusted returns and this was due to mispricing. They also find mild evidence of negative return for low sustainability. However, product safety and human rights ESG indicators are negatively related with risk-adjusted returns because of inefficiencies of pricing and some ESG indicators are not integrated into the price of stocks. Kocmanova, Karpíšek, and Klímková (2012) contributed to the existing literature by construction of ESG indicators to support investors. These ESG indicators are used not only for measuring ESG performance, but they also used to create sustainable value. The authors applied diverse statistical methods for the purpose of construction of ESG indicators. ESG factors help the company to improve its social and financial performance and add value for shareholders. Information can be distorted by the incentivized managers which they provide to the market participants about their firms' corporate social responsibility and it is difficult for the market participants to correctly construe information about corporate social responsibility (Orlitzky, 2013).

Academic literature suggests difference in the beliefs of fund managers about different aspects of ESG criteria while making investment decisions. ESG components are fragmented and managers' perception is never tested before in any research, which will be a contribution to existing literature. In author's opinion, managers' beliefs about ESG consideration are never explored considering different geographical locations and different corporate governance systems. This paper fulfils this gap by investigating the UK and French managers' beliefs about ESG.

### 3. The data

To find difference in belief of managers about ESR and CG normative statements are required to be asked from the managers. Therefore, random sample survey is used to find the perception of the managers towards different aspects of ESG criteria based on these normative statements. A questionnaire is drafted to do survey and after finalizing the questionnaire, it was administered to 1,400 managers involved in the investment process. The questionnaire clarifies the investment beliefs of persons involved in the investment process about ESG criteria using different normative statements about ESR and CG. This questionnaire reveals thinking of managers about environment, social and corporate governance (ESG) issues. This questionnaire highlights the different ESG components considered as most important by the managers while making the investment decisions.

### 3.1. Sample characteristics and responses

A questionnaire is distributed to the managers of these two countries. Association Francaise de Gestion financière (AFG) of France distributed the questionnaire to their members of SRI section. AFG represents the French asset management industry. Their members include all market participants of France working for institutional investors or collective investment schemes. The questionnaire was also distributed electronically to the 1,400 members of Société Française des Analystes Financiers (SFAF). SFAF is an association of France consisting of all investment professionals such as sell-side and buy-side analysts, portfolio managers, M&A specialists, financial communication managers etc. The questionnaire was distributed to the UK managers/agents through “Investments & Pension Europe (IPE)”. IPE is the leading European publication for the institutional investors and those running pension funds based in the UK. Test for difference in beliefs about two related variables across the whole population was analysed using Wilcoxon matched pairs signed-ranks test which is a non-parametric statistical hypotheses test. Corporate governance (CG) and environment & social responsibility (ESR) are two variables tested for difference across the whole population in our case. This test is considered appropriate as per guidelines of Bryman and Cramer (2005), where it is recommended to use when comparing two variables measured in the same sample and are independent. This test is considered better as compared to Mann-Whitney test that is used to test two variables in unrelated samples. The Wilcoxon test accounts for the size differences between the two sets of scores for each variable, by ranking and summing those with the same sign to test for any significant differences between the two samples. If there are no differences between the samples then the mean rank positive differences should be similar to that of the negative one. If there are no differences between the samples, then the mean rank positive differences should be similar to that of the negative one.

### 3.2. Sample description

Table 1 shows that total 53 responses were collected from French managers. 64% of the respondents are male and 36% are female. 55% of the respondents are Fund/portfolio Managers, 11% are SRI analysts and 34% are Investment Consultants/Advisors. 64% of the respondents have a master's degree and 62% have a professional experience of more than 10 years. The questionnaire was distributed in the UK through Investments & Pension Europe (IPE). A total of 86 managers of the UK completed the questionnaire and returned it back. 70% of the respondents are male and 30% are female. 42% of respondents are Fund/portfolio Managers, 22% are SRI analysts and 21% are Pension Fund Trustees/Executives. 52% of the respondents have a master's degree and 64% have an experience of more than 10 years.

**Table 1. Respondents' description of the qualitative data questionnaire**

Sample	Categories	UK (%)	France (%)
Sex	Male	70	64
	Female	30	36
Job function	Investment consultant/advisor	15	34
	Fund/portfolio manager	42	55
	SRI analyst	22	11
	Pension fund trustee/executive	21	0
Qualification	Less than a university diploma	7	2
	University diploma	26	13
	Masters	52	64
	PhD/CFA	15	21
Experience	Less than 1 year	2	4
	More than 1 year but less than 5 years	12	17
	More than 5 years but less than 10 years	24	15
	More than 10 years	62	64

Test for significant difference in beliefs reveals whether there is any significant difference in beliefs about CG or ESR sections of ESG criteria. There are total of eight tests to be performed about CG and ESR.

#### 4. Results and analysis

##### 4.1. To do social works with earning profits or after earning profits

Table 2 presents the Wilcoxon matched pair signed-ranks test for doing social works with earning profits or after earning profits. It presents the mean rank and the sum of ranks for the negative and positive ranks, the number of cases on which these are based together with the number of tied ranks, the test statistic Z and its significance level. In case of UK, there are 68 cases of positive ranks (to do social works simultaneously with earning profits is more favourable than to do social works after earning profits) indicating that doing social works simultaneously is considered more favourable while there are 25 cases of positive ranks in case of France. In case of UK there are 04 cases of negative ranks with a mean rank of 11 and sum of ranks is 44 and for France there are 12 cases of negative ranks with a mean rank of 16,88. For UK there are 14 ties in which managers consider doing social works simultaneously or after earning profits are neither more nor less favourable while there are 14 ties in case of France. For UK, the significant level is less than 0.01 and for France the significant level is less than 0.05 indicating there is a significant difference with a high rank in favour of doing social works simultaneously with earning profits.

##### 4.2. CG and ESR are demanded by the shareholders

Table 3 presents the Wilcoxon signed rank test for the case of CG/ESR demanded by the shareholders. As shown in the table, there are 31 cases of ties for UK and 19 cases of ties for France indicating that there is no difference in preference of CG and ESR beliefs about “being demanded by the shareholders”. In case of UK there are 30 cases of positive ranks (CG is demanded by the shareholders is less favorable than ESR is demanded by the shareholders) and 22 cases of negative ranks (CG is demanded by the shareholders is more favorable than ESR is demanded by the shareholders). For France, the number of positive and negative ranks is 14 and 16, respectively. Significant test shows that, both for UK and France, there is no significant difference between CG and ESR beliefs about being demanded by the shareholders with a slightly higher rank in favor of ESR.

**Table 2. Wilcoxon matched pairs signed-ranks test for doing social works (Hřebíček, Soukopová, Štencl, & Trenz, 2011)**

		UK			France			
		N	Mean rank	Sum of ranks	N	Mean rank	Sum of ranks	
To do social works simultaneously with earning profits - to do social works after earning profits	Negative ranks	4 <sup>a</sup>	11.00	44.00	12 <sup>a</sup>	16.88	202.50	
	Positive ranks	68 <sup>b</sup>	38.00	2,584.00	25 <sup>b</sup>	20.02	500.50	
	Ties	14 <sup>c</sup>			14 <sup>c</sup>			
	Total	86			51			
	Z		-7.199 <sup>d</sup>			-2.267 <sup>d</sup>		
	Asymp. Sig. (2-tailed)		0.000			0.023		

<sup>a</sup>To do social works simultaneously with earning profits < to do social works after earning profits.

<sup>b</sup>To do social works simultaneously with earning profits > to do social works after earning profits.

<sup>c</sup>To do social works simultaneously with earning profits = to do social works after earning profits.

<sup>d</sup>Based on negative ranks.

<sup>e</sup>Wilcoxon signed ranks test.



**Table 3. Wilcoxon matched pairs signed-ranks test for demand by shareholders (Hřebíček et al.)**

		UK			France			
		N	Mean rank	Sum of ranks	N	Mean rank	Sum of ranks	
ESR is demanded by shareholders - CG is demanded by shareholders	Negative ranks	22 <sup>a</sup>	26.34	579.50	16 <sup>a</sup>	13.97	223.50	
	Positive ranks	30 <sup>b</sup>	26.62	798.50	14 <sup>b</sup>	17.25	241.50	
	Ties	31 <sup>c</sup>			19 <sup>c</sup>			
	Total	83			49			
	Z		-1.040 <sup>a</sup>			-0.192 <sup>a</sup>		
	Asymp. Sig. (2-tailed)		0.299			0.848		

<sup>a</sup>ESR is demanded by shareholders < CG is demanded by shareholders to do social works simultaneously with earning profits >.

<sup>b</sup>ESR is demanded by shareholders > CG is demanded by shareholders.

<sup>c</sup>ESR is demanded by shareholders = CG is demanded by shareholders.

<sup>d</sup>Based on negative ranks.

<sup>e</sup>Wilcoxon signed ranks test.

#### 4.3. CG and ESR are demanded by the government

Table 4 presents the Wilcoxon signed Rank test for the case of CG/ESR “being demanded by the government. For UK, there are 38 cases of ties and 16 cases of ties for France indicating that there is no difference in CG and ESR belief preference about being demanded by the government. For UK, there are 34 cases of positive ranks (CG is demanded by the government is less favorable than ESR is demanded by the government) and 18 cases of positive ranks for France. Significant test indicates that, in case of UK, there is significant difference between CG and ESR beliefs about being demanded by the government with a higher rank in favor of ESR. In case of France there is no significant difference between CG and ESR beliefs about being demanded by the government.

#### 4.4. CG and ESR will better manage investment risks and returns

For UK, there are 44 cases of positive ranks (ESR will better manage investment returns is more favorable than CG will better manage investment returns) and 25 cases of positive ranks for France as shown in Table 5. For UK, there are 12 cases of negative ranks (ESR will better manage investment

**Table 4. Wilcoxon matched pairs signed-ranks test for demand by government (Hřebíček et al.)**

		UK			France			
		N	Mean rank	Sum of ranks	N	Mean rank	Sum of ranks	
ESR is increasingly demanded by government - CG is increasingly demanded by government	Negative ranks	11 <sup>a</sup>	24.27	267.00	15 <sup>a</sup>	16.53	248.00	
	Positive ranks	34 <sup>b</sup>	22.59	768.00	18 <sup>b</sup>	17.39	313.00	
	Ties	38 <sup>c</sup>			16 <sup>c</sup>			
	Total	83			49			
	Z		-2.938 <sup>a</sup>			-0.591 <sup>a</sup>		
	Asymp. sig. (2-tailed)		0.003			0.555		

<sup>a</sup>ESR is increasingly demanded by government < CG is increasingly demanded by government.

<sup>b</sup>ESR is increasingly demanded by government > CG is increasingly demanded by government.

<sup>c</sup>ESR is increasingly demanded by government = CG is increasingly demanded by government.

<sup>d</sup>Based on negative ranks.

<sup>e</sup>Wilcoxon signed ranks test.

**Table 5. Wilcoxon matched pairs signed-ranks test for management of risks (Hřebíček et al.)**

		UK			France			
		N	Mean rank	Sum of ranks	N	Mean rank	Sum of ranks	
ESR will better manage investment returns– CG would better manage investment risks	Negative ranks	12 <sup>a</sup>	25.38	304.50	11 <sup>a</sup>	12.59	138.50	
	Positive ranks	44 <sup>b</sup>	29.35	1,291.50	25 <sup>b</sup>	21.10	527,50	
	Ties	28 <sup>c</sup>			15 <sup>c</sup>			
	Total	84			51			
	Z		-4.133 <sup>a</sup>			-3.110 <sup>a</sup>		
	Asymp. Sig. (2-tailed)		0.000			0.002		

<sup>a</sup>ESR will better manage investment returns < CG would better manage investment risks.

<sup>b</sup>ESR will better manage investment returns > CG would better manage investment risks.

<sup>c</sup>ESR will better manage investment returns = CG would better manage investment risks.

<sup>a</sup>Based on negative ranks.

<sup>a</sup>Wilcoxon signed ranks test.

returns is less favorable than CG will manage investment returns) and 12 cases of negative ranks for France. For UK, there are 28 cases of ties in which views about CG/ESR and investment returns are either more or less favorable and 15 cases of ties for France. Test of significance also shows that there is significant difference between CG and ESR beliefs about management of investment returns for both countries.

**4.5. CG and ESR will bolster long-term shareholder value**

Table 6 presents that for UK 52 respondents are tied, indicating that CG/ESR beliefs about long-term shareholder value are neither more nor less favorable while 25 respondents are tied in case of France. For UK, there are 20 cases of negative ranks (where CG beliefs about long-term shareholder value are more favorable than ESR beliefs about long-term shareholder value) and 21 cases of negative ranks for France. For UK, the test is not significant and we can conclude that there is no significant difference between views on CG and ESR about long-term shareholder value.

**Table 6. Wilcoxon matched pairs signed-ranks test for long-term shareholder value (Hřebíček et al.)**

		UK			France			
		N	Mean rank	Sum of ranks	N	Mean rank	Sum of ranks	
ESR will bolster long-term shareholder value–CG will bolster long-term shareholder value	Negative ranks	20 <sup>a</sup>	16.43	3,28.50	21 <sup>a</sup>	13.38	2,81.00	
	Positive ranks	12 <sup>b</sup>	16.63	199.50	4 <sup>b</sup>	11.00	44.00	
	Ties	52 <sup>c</sup>			25 <sup>c</sup>			
	Total	84			50			
	Z		-1.303 <sup>a</sup>			-3.438 <sup>a</sup>		
	Asymp. sig. (2-tailed)		0.193			0.001		

<sup>a</sup>ESR will bolster long-term shareholder value < CG will bolster long-term shareholder value.

<sup>b</sup>ESR will bolster long-term shareholder value > CG will bolster long-term shareholder value.

<sup>c</sup>ESR will bolster long-term shareholder value = CG will bolster long-term shareholder value.

<sup>a</sup>Based on negative ranks.

<sup>a</sup>Wilcoxon Signed Ranks.

**Table 7. Wilcoxon matched pairs signed-ranks test for fiduciary obligation of the company (Hřebíček et al.)**

		UK			France			
		N	Mean rank	Sum of ranks	N	Mean rank	Sum of ranks	
ESR is fiduciary obligation of company - CG is fiduciary obligation of company	Negative ranks	23 <sup>a</sup>	14.87	342.00	9 <sup>a</sup>	14.44	130.00	
	Positive ranks	6 <sup>b</sup>	15.50	93.00	15 <sup>b</sup>	11.33	170.00	
	Ties	55 <sup>c</sup>			26 <sup>c</sup>			
	Total	84			50			
	Z		-2.825 <sup>a</sup>			-0.589 <sup>a</sup>		
	Asymp. sig. (2-tailed)		0.005			0.556		

<sup>a</sup>ESR is fiduciary obligation of company < CG is fiduciary obligation of company.

<sup>b</sup>ESR is fiduciary obligation of company > CG is fiduciary obligation of company.

<sup>c</sup>ESR is fiduciary obligation of company = CG is fiduciary obligation of company.

<sup>a</sup>Based on negative ranks.

<sup>a</sup>Wilcoxon signed ranks test.

#### 4.6. CG and ESR are the fiduciary obligation of the company

As shown in the Table 7, there are 55 cases of ties for UK that clearly indicates that there is no difference in preference about CG/ESR belief as the fiduciary obligation of the company and 26 cases of ties in case of France. For UK, there are 23 cases of negative ranks (CG is the fiduciary obligation of the company is more favorable than ESR as the fiduciary obligation of the company) while for France the cases of negative rank is 09. For UK, there are 6 cases of positive ranks (CG is the fiduciary obligation of the company is less favorable than ESR as the fiduciary obligation of the company) while for France the case of positive ranks is 15. In case of UK the Significant test shows that there is significant difference between views about CG/ESR as the fiduciary obligation of the company with a high rank score in favor of CG while for France the test is not significant Appendix A.

#### 5. Discussion and final conclusion

Our results showed that the managers of both countries are in favour of doing social work simultaneously while earning profits. Similar to our result, Epstein, Buhovac, and Yuthas (2015) discussed that large, complex, for-profit organizations are integrating the challenge of simultaneously managing social, environmental and financial performance into decision-making. An approach similar to our results was also discussed by Kramer and Porter (2011) who mentioned that giant multi-national companies of the world are reconceiving the intersection between society and corporate performance and their managers have greater understanding of the true bases of company productivity, and the ability to collaborate across profit/non-profits boundaries.

Our results showed that CG and ESR both bolster long-term shareholder value as per beliefs of the UK managers whereas French managers have a belief that CG will bolster long-term shareholder value. The results are consistent with the finding of Brochet, Loumiot, and Serafeim (2012) who showed that firms focusing on the short-term have a short-term-oriented investor base, higher stock price volatility and as a result higher cost of capital. Companies that avoid sending short-term messages have a better chance of attracting investors with long-term perspectives. If the aim of responsible investment is to produce long-term change, then a consideration of whether it aligns with extant practices is critical (Himick & Audousset-Coulier, 2016). Fund managers may wish to invest for the long term, but are pushed towards managing against shorter term goals since that is the basis upon which their performance is measured and assessed (Lenssen, van den Bergh, Louche, & Guyatt, 2005).

As per our results, UK managers have a belief that CG is the fiduciary obligation of the company while French managers believe in favour of ESR as the fiduciary obligation of the company. A report similar to our results was published by Novethic (2010)<sup>1</sup> which showed that more than 84% of European asset owners believe that there is no contradiction between the integration of ESG criteria and the fiduciary responsibility of the company.

The results also indicated that managers of two countries have common belief about ESR as better management of investment risks. This is quite interesting result as CG is considered more important for managing risks due to its direct impact on company's performance but the managers of two countries have a belief opposite to it. A study, contrary to our results, showed that financial performance of sovereign wealth funds are better managed with sound governance structure (Al-Hassan, Papaioannou, Skancke, & Sung, 2013).

Overall, there are mixed results for significant difference in beliefs about corporate governance (CG) and Environment & Social Responsibility (ESR). Managers of both countries have common beliefs that ESR is demanded by the Government, ESR will better manage investment risks and CG will bolster long-term shareholder value. Similarly, we found difference of beliefs among the managers of two countries. UK managers believe that CG is the fiduciary obligation of the company while French managers believe that ESR is the fiduciary obligation of the company. UK managers believe that the shareholders demand ESR while French managers have a belief that the shareholders demand CG. French managers have more favourable view towards Environment & Social Responsibility (ESR) or we can conclude that they are somewhat inclined to ESR as compared to UK managers. On the other hand, UK managers have more balanced views or beliefs toward CG and ESR. The results give a clear picture about managers' thinking about ESG components and are important both for academic researchers and for practitioners.

## 6. Limitations and future research

The limitation of the paper is that other stakeholders like government officials, shareholders and CEOs are not involved in our research. Our paper is focused on persons involved in the decision-making of investment process and this is the limitation of the paper. The future research could be to involve these stakeholders for further research in this area.

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### Author details

Ali Murad Syed<sup>1</sup>

E-mail: [amsyed@uod.edu.sa](mailto:amsyed@uod.edu.sa)

ORCID ID: <http://orcid.org/0000-0001-6180-8095>

<sup>1</sup> College of Business Administration, University of Dammam, Dammam, Saudi Arabia.

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### Note

1. "Sustainability: opportunity or opportunity cost? Applying ESG factors to a portfolio does not negatively impact performance and may enhance it" pp. 4–12 by RCM which is a company of Allianz Global Investors.

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## Appendix A

### Test for significant difference in beliefs

No.	Environment & Social responsibility (ESR) Beliefs	Corporate governance (CG) Beliefs	UK	France
1	To do social work simultaneously while earning profits	To do social work after earning profits	More favourable belief towards <i>doing social work simultaneously while earning profits</i> . Difference is significant at 1% confidence level (C.L.)	More favourable belief towards <i>doing social work simultaneously</i> . Difference is significant at 5% confidence level (C.L.)
2	ESR is demanded by the shareholders	CG is demanded by the shareholders	More favourable belief towards <i>ESR is demanded by the shareholders</i> . Difference is not significant	More favourable belief towards <i>CG is demanded by the shareholders</i> . Difference is not significant
3	ESR is demanded by the Governments	CG is demanded by the Governments	More favourable belief towards <i>ESR is demanded by the Government</i> . Difference is significant at 1% C.L.	More favourable belief towards <i>ESR is demanded by the Government</i> . Difference is not significant
4	ESR will better manage investment risks	CG will better manage investment risks	More favourable belief towards <i>ESR will better manage investment risks</i> . Difference is significant at 1% C.L.	More favourable belief towards <i>ESR will better manage investment risks</i> . Difference is significant at 1% C.L.
5	ESR will bolster long-term shareholder value	CG will bolster long-term shareholder value	More favourable belief towards <i>CG will bolster long-term shareholder value</i> . Difference is not significant	More favourable belief towards <i>CG will bolster long-term shareholder value</i> . Difference is significant at 1% C.L.
6	ESR is the fiduciary obligation of the company	CG is the fiduciary obligation of the company	More favourable belief towards <i>CG is the fiduciary obligation of the company</i> . Difference is significant at 1% C.L.	More favourable belief towards <i>ESR is the fiduciary obligation of the company</i> . Difference is not significant



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