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In search of a perfect way to evaluate banks' ESG performance

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Abstract

This study contributes to two streams of academic discussion, namely, ESG performance evaluation at the bank level and the link between banks' financial performance and ESG performance. Our analysis covers 95 European banks during the 2006–2022 period. We claim that using text mining may result in objective, comprehensive and replicable ESG scores for banks. Therefore, we employ advanced text-mining techniques to evaluate banks' ESG performance. The results of the exploration of the link between financial performance and ESG performance are ambiguous. We find that high profitability reduces banks' ESG performance, whereas the ESG variables lack statistical significance with regard to financial performance. Before 2018, some banks had outstanding ESG performance, and after the implementation of the NFRD, all the banks were on the same track.

Keywords: ESG, text-mining, bank, climate, reporting, banking