THE BANKING MANAGEMENT OF SUSTAINABILITY: ASSESSING THE INTEGRATION OF ESG FACTORS AT GOVERNANCE LEVEL

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Abstract

In the last decades, investors and stakeholders at large have been increasingly concerned with social and environmental matters and have pressured companies to provide greater accountability and transparency of their commitment to sustainability (Owen et al., 2001). These concerns also affected the financial sector, with policymakers and regulators worldwide working on consultation proposals, guidelines and legislative frameworks to integrate the environmental, social and governance (ESG) factors into credit risk assessment (Committee of Sponsoring Organizations of the Treadway Commission [COSO] & World Business Council for Sustainable Development [WBCSD], 2018; United Nations [UN], 2016; UN, 2022). In this perspective, the recent implementation of the guidelines on loan origination and monitoring, finalised by the European Banking Authority (EBA, 2020), acquires particular relevance, as they explicitly introduce the ESG logic in the regulatory framework for banks. Thus, financial institutions should be more likely to disclose information extensively on their ESG practices. However, in absence of a uniform requirement for ESG disclosure, banks produce

heterogeneous reports and information contents, depending on the executive decisions made by corporate governance.

In effect, for banks, sustainability is not just an ethical problem, but may soon enough also become an economic and existential question for fostering future profitability. Undoubtedly, the banking sector can play a key role in promoting a sustainable process of value creation and more responsible individual behaviour (Eremia & Stancu, 2006). First, banks can directly contribute to the reduction of environmental damage through the rationalisation and reorganisation of their resources, activities, and structures (prudent use of paper, lighting, air conditioning, as well as the development of e-banking services for payments, fund transfer, account statements, etc.). Furthermore, their indirect impact could be even more coherent in social and economic terms. In fact, banks can support consistent initiatives toward a clean environment (Miah et al., 2021), by influencing industries and businesses through their financing and their innovations in product design, pricing and sales decisions. For instance, they can encourage clients' sustainable investments by setting lower-rate loans for greener investments (Chitra & Gokilavani, 2020) or granting credits with a requirement of environmental standards (Zhang et al., 2011).

In the financial sector, the adoption and implementation of sustainability strategies have taken manifold forms and have led to various types of practices. However, all these forms and practices of green banking can be meaningful only if ESG awareness is supported at a corporate governance level (Liang et al., 2018). In fact, to address sustainability challenges, banks have to take social and environmental issues into consideration when developing their own corporate strategies and evaluating business performance (Siueia et al., 2019). They have to balance competitiveness and sustainable requirements and transparently report on the risks related to the management of their assets and liabilities.

Surely, the banking management of sustainability could be complex and costly, but it also represents an opportunity for financial institutions to innovate and attract investors. In this regard, previous studies found a positive correlation between the adoption of sustainable banking practices and a bank's profitability (Bhardwaj & Malhotra, 2013; Cornett et al., 2016; La Torre et al., 2021).

Given these premises, this study aims to contribute to green banking literature, which represents an emerging and quite unripe research field. To this end, the analysis will focus on a selected sample of Italian listed banks, included in the FTSE MIB index.

The level of ESG disclosure will be assessed through systematic content analysis (Weber, 1990; Krippendorff, 2013), which is an established and empirically valid method in the research on social, environmental (Guthrie & Abeysekera, 2006; Maali et al., 2006; Amini et al., 2018) and financial relationships (Beattie, 2005). In particular, we will evaluate the amount and the quality of ESG information considering financial statements, integrated and sustainability reports, as well as

other forms of corporate disclosure published on the websites of the banks sampled. The documentary analysis will be conducted manually for greater accuracy (Anastasiei & Georgescu, 2020) and will cover a time span of 4 years, from 2017 to 2021. This range is significant as the European Union Directive 2014/95 on non-financial and diversity information has been implemented in Italy from 2017 onwards (Ahern, 2016; Monciardini, 2016; Korca & Costa, 2021). A longitudinal approach will allow us to observe the evolution of the same constructs multiple times, in order to reveal patterns in the adoption of sustainable business activities and models by the banks sampled (Deegan & Rankin, 1996; Ritala et al., 2018).

Furthermore, an ESG disclosure index will be developed tracing the most relevant items of each ESG dimension. This index will be used to quantify whether materiality-related ESG information is effectively mentioned and well-detailed. Consistent with the material information framework developed by the Sustainability Accounting Standard Board (SASB) for the banking industry, we consider the principle of materiality as an essential filter for the dissemination of ESG information, which is supposed to be "material" if they can significantly change investors' assessment or are useful for the economic decisions of users. Starting from these considerations, the purpose of this work is to provide an assessment model for measuring the integration of ESG factors in the banking industry.

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