


Chapter 4


Exploring the Nexus of Objectives and Rating Disparities: An In-Depth Examination of ESG Rating Agencies

Hanaa Taji

 <https://orcid.org/0009-0008-2213-7469>

Ibn Zohr University, Morocco

El Houssain Attak

 <https://orcid.org/0009-0007-4228-1057>

Cadi Ayyad University, Morocco

ABSTRACT

This chapter explores the complex landscape of ESG (Environmental, Social, and Governance) ratings, focusing on their conceptual foundations, the methodologies employed by major rating agencies, the criteria used to evaluate corporate sustainability, and the significant divergences in ratings. It examines how different agencies interpret and apply ESG criteria, leading to varied ratings that complicate consistent comparisons for investors. Through a detailed analysis of sector-wise correlation and descriptive statistics, the chapter highlights the influence of sectoral characteristics on rating discrepancies and proposes recommendations for standardizing ESG reporting, enhancing transparency, integrating advanced technologies, and developing sector-specific guidelines to improve the reliability and comparability of ESG ratings.

DOI: 10.4018/979-8-3693-3880-3.ch004

1. INTRODUCTION

ESG (Environmental, Social, and Governance) investment has become a fundamental aspect of modern finance, reflecting a growing awareness of global issues such as climate change, social justice, and corporate governance. Investors now incorporate ESG criteria into their decision-making processes to align their portfolios with ethical and sustainable values. In 2022, ESG assets under management reached approximately \$41 trillion, representing about 36% of global assets under management, a notable increase from \$22.8 trillion in 2016 (Bloomberg Intelligence, 2022). This substantial growth highlights the increasing significance of ESG criteria in guiding investment choices.

For many institutional and individual investors, integrating ESG criteria into investment strategies has become standard practice. These investors aim not only to achieve financial returns but also to foster responsible practices and mitigate risks associated with companies that neglect environmental, social, or governance issues. Research indicates that incorporating ESG criteria can enhance risk-adjusted returns and reduce portfolio volatility (Friede et al., 2015; Clark et al., 2015; Nofsinger & Varma, 2014).

The prominence of ESG criteria is also bolstered by regulatory and governmental support. For example, the European Union introduced the Taxonomy for Sustainable Investments in 2020 to establish a coherent framework for classifying sustainable economic activities (European Commission, 2020). This initiative seeks to improve transparency and provide a common basis for evaluating ESG impacts.

The ESG market is a dynamic ecosystem involving various stakeholders, including investors, companies, regulators, consumers and, all working towards integrating environmental, social, and governance criteria into business practices and investment decisions (PwC Global, 2022; EY Global Insights Team, 2022). ESG rating agencies, such as MSCI, Sustainalytics, LSEG (Refinitiv), and Moody's (Vigeo Eiris), evaluate companies' ESG performance and provide extra-financial scores to investors (Gibson et al., 2021; Escrig-Olmedo et al., 2019).

However, ESG rating agencies face significant challenges in producing reliable and comparable ratings. The methodologies used by different agencies vary considerably, leading to variations and sometimes contradictions in ESG scores assigned to the same companies. These discrepancies create uncertainty for investors seeking to align their portfolios with specific ethical criteria, as evidenced by score differences that can reach 30% for the same company (Berg et al., 2022). Additionally, sector-specific factors such as the unique ESG risks and opportunities presented by technology and financial services are not uniformly evaluated by all agencies, contributing to the inconsistency in ESG scores.

24 more pages are available in the full version of this document, which may be purchased using the "Add to Cart" button on the publisher's webpage: www.igi-global.com/chapter/exploring-the-nexus-of-objectives-and-rating-disparities/354167

Related Content

Robustness of Norway Economy and Energy Supply/Demand

Alireza Aslani, Maryam Hamlehdarand Reza Saeedi (2017). *International Journal of Green Computing* (pp. 1-19).

www.irma-international.org/article/robustness-of-norway-economy-and-energy-supplydemand/206151

Issues and Challenges of Women in the Building Construction Profession in Edo State, Nigeria

Godwin Ehis Oseghale, Clinton Aigbavboa, Bridget Oseghale, Ifeoluwa Awotundeand Albert Ayorinde Abegunde (2024). *The Role of Female Leaders in Achieving the Sustainable Development Goals* (pp. 232-244).

www.irma-international.org/chapter/issues-and-challenges-of-women-in-the-building-construction-profession-in-edo-state-nigeria/347069

Improving Organizational Environmental Performance Through Green Training

Preksha Yadavand Jain Mathew (2023). *Implications of Industry 5.0 on Environmental Sustainability* (pp. 116-131).

www.irma-international.org/chapter/improving-organizational-environmental-performance-through-green-training/316612

COVID-19 Impact on National Tourism: Romania's Case Study

Lcrmioara Alina Drcea, Daniela Mrcine, Maria Giripand Iulia Alexandra Oprea (2021). *International Journal of Sustainable Economies Management* (pp. 39-53).

www.irma-international.org/article/covid-19-impact-on-national-tourism/298950

The Role of Local Wisdom-Based e-Eco-Innovation to Promote Firms' Marketing Performance

Vincent Didiek Wiet Aryanto (2017). *International Journal of Social Ecology and Sustainable Development* (pp. 17-31).

www.irma-international.org/article/the-role-of-local-wisdom-based-e-eco-innovation-to-promote-firms-marketing-performance/172060