
The Impact of Environmental, Social and Governance (ESG) On Stock Returns: Evidence from Pakistan



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Abstract:

ESG is very new concept for developing economy therefore this study intended to investigate the impact of ESG on stock returns. The analysis present the score of the ESG of the crosswise over time and enables us to understand that either the organizations have expanded associations in ESG or not because of the rising worry on the worldwide range of business rehearses. This study explores the ESG screening effect on stock portfolio return over the year of 2012 to 2017 in the form of time series data and uses model of fama-french (1993). This research used data of companies, which are listed in Pakistan stock exchange whose data related to ESG is conveniently extractable in order to analyze either ESG screening effect stock market returns or not. Empirical investigations revealed that in Pakistan market ESG screening hardly get any attention in market. Based on the analysis, there is small size anomaly in Pakistan market as majority of SMB variables is significant for ESG high – ESG-low portfolios. But the issue is that in Pakistan stock market there is no criterion for ESG screening of small size portfolio; with low ESG scores earn more than high size ESG of same small size firms. ESG screening has insignificant returns on stock portfolios which manifest that in Pakistani market investors prefer short term gains regardless of any ethical screenings. While in develop markets investors screen portfolios on the bases of ESG so to get high risk-adjusted returns. Analysis ESG high-low ESG is negative which shows that ESG low scores earn more the ESG high scores and the main reason is the short term prospects of investors in market, no preference for ethical investment, least importance for sustainable environment of company factor while selecting for investment. With increasing trend of ethical and socially responsible investing concept, its need of the time to screen assets on the basis of not just governance but a broader prospect of ESG.

Keywords: *Environmental, Social and Governance profile, stock returns (adjusted-stock returns) fama French factor model*