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Title: ESG investing, reputation and Government Policies in British SMEs: Why does firmographics matter?

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Research objectives

At a preliminary stage, this study aims to examine how the firmographics of SMEs affect the chances of considering ESG factors when deciding to invest. In this respect, we attempt to analyse the potential of the ESG section in the British Business Bank (BBB) survey launched in 2021: We want to evaluate the relation between the adoption of innovations and the 'popularity' of ESG investing among SMEs. We also would like also to assess how government policies affect the SMEs' attitude towards ESG investing.

Some background

We differentiate between five regions: The North, the Midlands, the South (excluding London), London, and the rest of the UK. We compare regional differences in ESG investing criteria popularity, as well as analyse how co-factors such as external finance, firm age, gender, and minority leadership affect the appeal of incorporating ESG factors in the appraisal of financial decisions. Analogously, the functions of government policies in these sustainability-oriented processes are studied.

Though quantitative works on the topic are relatively new, precedent-related research has been found in Permansari and Gunwan (2023), Asante and Lambert (2022) and Ardito et al (2021). These articles touch upon the interactions of the covariates mentioned above, encountering at this stage some support for Ardito et al (2021) with respect to the importance of government policies to incentivize minority-owned SMEs to make sustainable financial decisions. These results are in line with our own 2021's initial results.

Methodology

Using the 2021 and 2022 survey by the BBB, a sample of over 5,000 SMEs is studied. We evaluate these as pulled cross-sections by using ordered logistic models, optimised through the Expectation-Maximization Iterating Algorithm. This is a work in progress, which will be expanded in the next three years.

Preliminary results for 2022

Implementing ESG because of reputation and brand is affected positively mostly by government policy changes, over 8 times. Implementing ESG has a negative impact in the South of the country (excluding London), around 96%. However, implementing ESG for competitive advantage was twice at odds with doing it for reputation and brand. Government expenditure is also significant, but not robust. At this stage, the adoption of product and/or process innovations and export activity, are not significant for implementing ESG.

However, implementing ESG because of reputation and brand as such, did not have any significant impact on supporting ESG investing. When the reason to favour ESG is reputation, the chances of ESG investment increased 474%. On the contrary, SMEs that were either older than 10 years or owned largely by ethnic minorities were around 100% less likely to favour ESG investment. Gender of the owner at this time is not significant for ESG investing. Conclusions (so far):

In this sample, after controlling for their firmographics, we found that the SMEs that were more likely to support ESG investing were mostly influenced by reputational factors. However, if these firms were to implement the ESG criteria based on reputation, government policies would have been instrumental in encouraging them. As found in the 2021 initial study, minorities tend to underscore the relevance of ESG in investing. Our main limitation though persists regarding the inherent data shortage of the recent advent of ESG in the BBB's survey. We expect to substantiate the analysis within the next three rounds of the survey.

References

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