International Journal of Advanced Engineering, Management and Science (IJAEMS)
Peer-Reviewed Journal
ISSN: 2454-1311 | Vol-11, Issue-4; Jul-Aug, 2025
Journal Home Page: https://ijaems.com/
DOI: https://dx.doi.org/10.22161/ijaems.114.13

A Comparative Analysis of ESG-Focused and Traditional Investment Banking Firms: Financial Performance, Compliance, and Reputation.

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Received: 12 Jun 2025; Received in revised form: 01 Jul 2025; Accepted: 06 Jul 2025; Available online: 11 Jul 2025

Abstract— *The aim of this project was to evaluate how ESG-focused investment banks differ from traditional investment banks in terms of financial performance, compliance strength, and reputational standing. The research problem arose from the increasing global attention on ESG integration and the lack of comparative evidence on whether such practices yield measurable benefits in the investment banking sector.*

Keywords— ***ESG Investment, Traditional Investment Banks, Financial Performance, Sustainability Metrics, Shareholder Returns & Media Sentiment Analysis***

I. INTRODUCTION

In recent years, there is a significant paradigm shift in the global financial sector toward responsible investing, particularly through the adoption of ESG (Environmental, Social, and Governance) principles. Investment banks—traditionally focused on profitability and capital efficiency—are now increasingly expected to incorporate sustainability, ethical governance, and social responsibility into their operations. As an aspiring finance professional, I wanted to explore whether ESG-focused investment banks actually outperform or differ significantly from traditional ones in terms of financial metrics, compliance strength, and reputation.

Statement of the Problem

While ESG integration is gaining momentum, I found limited comparative research evaluating how ESG-focused banks perform against traditional banks from both a financial and non-financial standpoint.

Research Objectives, Questions & Hypotheses

Objectives:

- To compare financial performance (EPS, ROE, NPM, Revenue, D/E) between ESG-focused and traditional investment banks.
- To evaluate their ESG risk scores and media sentiment profiles.
- To statistically test if the differences observed are significant.

Hypotheses:

- **H_01 (Null Hypothesis):** There is no significant difference in the EPS between ESG-Focused and traditional Investment banks.
- H_{11} **(Alternative Hypothesis):** There is a significant difference between the EPS between ESG-Focused and traditional Investment banks.
- H_{02} **(Null Hypothesis):** There is no significant difference in the 5Y returns between ESG-Focused and traditional Investment banks.

- **H_{12}Alternative Hypothesis):** There is a significant difference between the 5Y returns between ESG-Focused and traditional Investment banks.
- **H_{03}(Null Hypothesis):** There is no significant difference in the ESG Scores between ESG-Focused and traditional Investment banks.
- **H_{13} (Alternative Hypothesis):** There is a significant difference between the ESG Scores between ESG-Focused and traditional Investment banks.

Significance of the Study

This study is important because it brings clarity to the debate around ESG integration—whether it is a true driver of financial and reputational strength or merely a superficial trend. My findings can guide investors, analysts, and policymakers in assessing which banking models are better positioned for long-term sustainability and market relevance.

Scope and Limitations

This research is limited to a sample of eight global investment banks, four of which are classified as ESG-focused and four as traditional. The analysis covers data from 2020 to 2024. As I relied on publicly available secondary data, variations in ESG scoring methodologies and limited access to internal metrics pose some constraints.

II. REVIEW OF LITERATURE

1. ***ESG Integration and the Investment Management Process: Fundamental Investing Reinvented*** Auke Plantinga & M. Klimenko **(**2015)

Published in the Journal of Business Ethics, this study explores how ESG (Environmental, Social, and Governance) factors are integrated into traditional investment decision-making. The researchers highlight that ESG has evolved to become a part of fundamental analysis rather than an optional overlay.

2. ***ESG Activities and Banking Performance: International Evidence from Emerging Economies*** Wajahat Azmi, M. Kabir Hassan, Reza Houston, Mohammad Sydul Karim (2021)

Published in the *Journal of International Financial Markets, Institutions and Money*, this empirical study examines how ESG engagement influences the performance of 251 banks across 44 emerging economies. Among the ESG pillars, environmental actions were the most effective in improving financial performance.

3. ***Bank's Funding Costs: Do ESG Factors Really Matter?*** Agnese Paolo & Giacomini Emanuela **(**2023)

This research, featured in Finance Research Letters, analyzes data from 63 European banks between 2006 and 2021. It concludes that institutions with higher ESG scores enjoy lower bond spreads, reflecting enhanced market trust and credit perception. Governance quality was found to be the most influential in lowering borrowing costs, followed by environmental and social practices.

III. Research Methodology

Population and Sample

The sample includes **eight investment banking firms**, equally divided into:

- 4 ESG-focused investment banks
- 4 Traditional investment banks.

Sampling Techniques

The sampling technique is **purposive sampling**, as companies were chosen based on their ESG orientation and investment banking status.

Data Collection Methods

The project utilized **secondary data**, including:

Financial reports, Investor presentations, Regulatory filings, ESG compliance reports, Sustainability disclosures, Media reports and sentiment analysis

Instruments Used

- MS Excel

Data Analysis Techniques

- **Descriptive statistics** (for comparing revenue, NPM, ROE, EPS, D/E, etc.)
- **t-tests** (for hypothesis testing between ESG and traditional firms)
- Media sentiment scoring

IV. RESULTS / FINDINGS

Financial Metrics

ESG Firms	2024	2023	2022	2021	2020
REVENUE	41,022	39,971	38,186	37,033	36,064
NPM (%)	27.7725	27.8	22.0525	24.695	12.025
ROE (%)	10.88	10.9275	8.19	8.645	4.415
EPS	3.4175	3.03125	2.3895	2.34675	1.625
ESG D/E	18.17	17.777	18.5225	17.24	17.1875

Traditional Firms	2024	2023	2022	2021	2020
Revenue	23,368	25,319	23,423	23,651	25,416
NPM(%)	14	22	20	21	18
ROE(%)	8	12	12	9	8
EPS	1	3	3	2	3
D/E	4	4	4	4	4

Compliance Metrics

Company Name	Sustanalytics ESG Score	S&P ESG Score	CSRHub Score
BNP Paribas	21	57	97
ING Group N. V.	12.9	41	96
Barclays PLC	16.9	64	97
HSBC Holdings PLC	19.7	58	93
Wells Fargo & Co.	33.7	37	77
Everbright Securities Ltd	33.7	23	43
Guolian Minsheng Securities Company Ltd.	32.5	26	63
Houlihan Lokey, Inc	30.7	22	44

REPUTATION METRICS

Company	Year	ESG Event/Recognition	Pillar	Source Type
BNP Paribas	2020	Euromoney: Best Bank for Financial Inclusion	S	Award
	2021	MSCI ESG 'AA'; Sustainalytics Score ~21	All	Rating
	2021	FTSE4Good & DJSI Inclusion	All	Index
	2021	EcoVadis Silver	All	Certification
	2021	UN PRI, TCFD, UNGC Support	G	Disclosure

	2023	Euromoney: Best Bank & for Sustainable Finance	All	Award
	2024	SBTi, CDP, FTSE4Good continued	E	Certification/Index
	2025	Sustainalytics Score ~21; DJSI/FTSE included	All	Rating/Index
ING	2021	MSCI ESG 'AA'; Sustainalytics Low Risk	All	Rating
	2021	FTSE4Good, Euronext ESG inclusion	All	Index
	2022	Ranked 2nd in World Benchmarking Alliance	All	Ranking
	2023	Sustainalytics Score 12.9 (Low risk)	All	Rating
	2024	Euromoney: Best Bank for ESG in Germany	All	Award
	2024	MSCI AA reaffirmed; ESG indices included	All	Rating/Index
	2025	First SBTi near-term validated G-SIB	E	Certification
Barclays	2023	Sustainalytics Score 16.9 (Low Risk)	All	Rating
	2024	FTSE4Good inclusion	All	Index
HSBC	2022	Bond Awards; Asia's Best ESG Bank	E	Award
	2022	MSCI 'AA'; Sustainalytics ~19.7	All	Rating
	2023	CDP A–; FTSE4Good, DJSI retained	E	Rating/Index
	2024	Euromoney: Best Sustainable Finance Bank	E	Award
	2025	Issued $1T sustainable finance roadmap	E	Disclosure
Wells Fargo	2020	$200bn sustainable finance goal	E	Corporate Target
	2021	$2bn Climate Bond Program	E	Issuance
	2022	Climate Bonds Award	E	Award
		Sustainalytics Score 33.7 (High risk)	All	Rating
	2024	Withdrew net-zero target	G	Disclosure
Everbright Securities	2022	Sustainalytics Score 33.7 (High risk)	All	Rating
Guolian Securities	2023	Sustainalytics Score 32.5 (High risk)	All	Rating
Houlihan Lokey	2021	First ESG/Sustainability Report	All	Disclosure
	2024	Sustainability report updates (SASB, TCFD)	All	Disclosure
		Sustainalytics Score 30.7 (High risk)	All	Rating

Hypothesis Testing

Hypothesis 1

- **H_01 (Null Hypothesis):** There is no significant difference in the EPS between ESG-Focused and traditional Investment banks.
- $\boldsymbol{H_{11}}$**(Alternative Hypothesis):** There is a significant difference between the EPS between ESG-Focused and traditional Investment banks.

Table No. 7.1

t-Test: Two-Sample Assuming Unequal Variances		
	Variable 1	*Variable 2*
Mean	2.562	2.3025
Variance	11.64809867	4.694161
Observations	4	4
Hypothesized Mean Difference	0	
Df	5	
t Stat	0.128384119	
P(T<=t) one-tail	0.451424553	
t Critical one-tail	2.015048373	
P(T<=t) two-tail	0.902849106	
t Critical two-tail	2.570581836	

Hypothesis 2

- **H_{02} (Null Hypothesis):** There is no significant difference in the 5Y returns between ESG-Focused and traditional Investment banks.
- **H_{12}Alternative Hypothesis):** There is a significant difference between the 5Y returns between ESG-Focused and traditional Investment banks.

t-Test: Two-Sample Assuming Unequal Variances		
	Variable 1	*Variable 2*
Mean	**234.0819989**	**130.8349554**
Variance	2882.349464	11904.74978
Observations	4	4
Hypothesized Mean Difference	0	
Df	4	
t Stat	1.698111201	
P(T<=t) one-tail	0.082359577	
t Critical one-tail	2.131846786	
P(T<=t) two-tail	0.164719154	
t Critical two-tail	2.776445105	

Hypothesis 3

- **H_{03}(Null Hypothesis):** There is no significant difference in the ESG Scores between ESG-Focused and traditional Investment banks.
- **H_{13} (Alternative Hypothesis):** There is a significant difference between the ESG Scores between ESG-Focused and traditional Investment banks.

t-Test: Two-Sample Assuming Unequal Variances		
	Variable 1	*Variable 2*
Mean	14.825	32.65

Variance	19.00916667	2.01
Observations	4	4
Hypothesized Mean Difference	0	
Df	4	
t Stat	-7.775920061	
P(T<=t) one-tail	0.00073737	
t Critical one-tail	2.131846786	
P(T<=t) two-tail	0.00147474	
t Critical two-tail	2.776445105	

V. FINDINGS

Revenue Growth: ESG banks showed steady ~13.7% growth, while traditional banks had slower, inconsistent growth (~8.7%).

Profitability: ESG firms' NPM rose to ~28%, while traditional firms declined to 18% by 2024.

ROE: Traditional banks led early (12%) but declined; ESG firms improved and caught up by 2024.

EPS: ESG firms had consistent EPS growth; traditional banks showed volatility, especially a dip in 2023.

Leverage (D/E): ESG banks had higher leverage (~18) vs. traditional banks (~4), enabling expansion.

5Y Shareholder Returns:

ESG Banks:

BNP Paribas: 176.44%, Barclays: 244.25%, HSBC: 212.55% & ING: 303%

Traditional Banks:

Wells Fargo: 214.45%, Everbright: 17.62%, Guolian: 57.69% & Houlihan Lokey: 233.57%

ESG Scores: ESG firms had lower ESG risk, indicating high sustainability and reliability.

Hypothesis Testing Results:

EPS: No significant difference (H_0 accepted)

5Y Returns: No significant difference (H_0 accepted)

ESG Scores: Significant difference (H_1 accepted)

VI. CONCLUSION

This project presents a comparative analysis of ESG-focused and traditional investment banks over a five-year period (2020–2024), examining their financial performance, reputational standing, and compliance metrics. Key indicators such as revenue, net profit margin (NPM), return on equity (ROE), earnings per share (EPS), debt-to-equity ratio (D/E), 5-year total returns, ESG scores, and media sentiment were used for the evaluation. The results revealed that ESG-focused banks exhibited stronger revenue growth, consistent profitability, improving shareholder returns, and significantly lower ESG risk scores. Traditional banks, while historically robust, showed more volatility in performance and a lower degree of adaptability to ESG-related risks.

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