Examining the effect of ESG Controversies Score on Mutual Fund Performance During the COVID-19 Pandemic

Ioannis Tampakoudis
Associate Professor, Department of Business Administration,
University of Macedonia,
156 Egnatia Street, GR-546 36 Thessaloniki, Greece
tampakoudis@uom.edu.gr

Nikolaos Kiosses
PhD in Finance, Department of Accounting and Finance,
University of Macedonia,
156 Egnatia Street, GR-546 36 Thessaloniki, Greece
nkiosses@uom.edu.gr

Konstantinos Petridis
PhD candidate, Department of Business Administration,
University of Macedonia,
156 Egnatia Street, GR-546 36 Thessaloniki,
Greece
k.petridis@uom.edu.gr

Abstract

In this research paper, the focus is on exploring the impact of Environmental, Social, and Governance (ESG) performance on the performance of mutual funds in the context of the COVID-19 pandemic. The study employs Data Envelopment Analysis (DEA) and conducts various hypothesis tests to assess the impact of ESG controversies scores on the efficiency of mutual funds. The analysis is conducted on a sample of 17,961 mutual funds from around the world, considering data available during the later phase of the COVID-19 pandemic. The DEA methodology is used to evaluate the performance of mutual funds, and their efficiency scores are determined through the DEA Portfolio Efficiency Index (DPEI). The sample is divided into two groups based on the quartiles of ESG scores to investigate the influence of ESG controversies scores on mutual fund performance.

The findings indicate that mutual funds with higher ESG controversies scores outperformed those with lower scores. Regardless of the geographic focus of the funds' investments, mutual funds with stronger ESG performance exhibited greater financial efficiency. These insights have significant implications for both investors and mutual fund managers. Investors, whether retail or institutional, should recognize the potential performance benefits associated with investing in socially responsible mutual funds during the COVID-19 pandemic. Furthermore, mutual fund managers are advised to avoid including securities with ESG controversies in their portfolios, as doing so can lead to enhanced financial efficiency during periods of health, environmental, or market crises. It is important to note that the study's primary limitation is the lack of available time-series data for mutual funds throughout the COVID-19 pandemic. This study stands out as the first to utilize the ESG controversies score as a determinant of mutual funds' financial efficiency during the COVID-19 era.

Keywords
mutual funds; ESG controversies; Data Envelopment Analysis; COVID-19.

© IEOM Society International

Acknowledgements

The research project was supported by the Hellenic Foundation for Research and Innovation (H.F.R.I.) under the 4th Call for Action "Science and Society"- Emblematic Action – "Interventions to address the economic and social effects of the COVID-19 pandemic" (Project Number: 5098).

Biographies

Ioannis A. Tampakoudis is an Associate Professor of Finance at the Department of Business Administration, at the University of Macedonia. He holds a BSc and a PhD in Finance from the University of Macedonia, and he earned an MSc in Banking and International Finance from the Business School of City University, London. He teaches at undergraduate and postgraduate level courses related to corporate finance, capital markets, international finance and entrepreneurship. Research work has been published in peer reviewed academic journals such as Journal of Financial Stability, European Management Journal, International Journal of Finance and Economics, Business Strategy and the Environment, Research in International Business and Finance, and Corporate Governance: The International Journal of Business in Society. He has also participated in more than 40 international academic Conferences, and he has gained thrice the "Best Paper" award. Currently, he is Scientific Coordinator at a research project funded by the Hellenic Foundation for Research & Innovation (Project Number: 5098), and a research project funded by the University of Macedonia. He was Scientific Coordinator at an INTERREG program (Greece-Republic of North Macedonia 2014-2020), Deputy Scientific Coordinator at another INTERREG program (Greece-Bulgraria 2014-2020), while he has participated in many national and international research projects as a team member.

Nikolaos Kiosses, PhD, is a finance expert who obtained his doctoral degree from the Department of Accounting and Finance at the University of Macedonia. His research thesis provides valuable insights into the influence of economic policy uncertainty on the valuation outcomes of Mergers and Acquisitions (M&As) in the U.S. banking sector. Dr. Kiosses boasts an impressive track record of publishing high-quality research and excelling in the field of finance. In addition to his academic accomplishments, Dr. Kiosses has extensive experience in financial education and actively contributes to various research projects. His research interests encompass a range of topics, including Mergers and Acquisitions, financial markets, diversity issues, corporate governance mechanisms, and the financial implications of Environmental, Social, and Governance (ESG) criteria.

Konstantinos Petridis is a PhD student in the Department of Business Administration at the University of Macedonia, where his research focuses on the financial performance of corporate governance mechanisms in the context of Mergers and Acquisitions (M&As). He holds a B.Sc. in Mathematics from Aristotle University of Thessaloniki, an M.Sc. in Logistics Management from the Department of Economic Sciences at Aristotle University of Thessaloniki, and an M.Sc. in Taxation and Financial Management of Strategic Decisions from the Department of Economic Sciences, Business Administration, University of Macedonia. Konstantinos possesses strong quantitative skills with applications in various fields, including Operational Research Methods, Machine Learning, and AI techniques, Statistics, and Metaheuristic algorithms. He utilizes tools such as R CRAN and GAMS for Operational Research and Statistics techniques, as well as Python for AI and Machine Learning models. His research has been published in reputable journals in the areas of Operational Research (e.g., Annals of Operations Research, Computers and Operations Research), Engineering (e.g., Computers & Industrial Engineering), and Financial Analysis (e.g., Research in International Business and Finance). His publications often involve performance evaluation using the Data Envelopment Analysis (DEA) method. Konstantinos's research interests primarily revolve around the financial performance of firms, evaluating M&As from the perspectives of gender diversity and Environmental, Social, and Governance (ESG) considerations. He applies Operational Research models with metaheuristic algorithms and employs Machine Learning models in his investigations.

© IEOM Society International