

Perception of ESG criteria by mainstream investors: evidence from Tunisia

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Abstract

Purpose – The purpose of this paper is to explore the perception of environmental, social and governance (ESG) criteria by mainstream investors in an emerging financial market, that of Tunisia, country at the origin of the Arab Spring.

Design/methodology/approach – A series of focus groups and semi-structured interviews were conducted with financial professionals.

Findings – Despite efforts by the Tunisian state to promote CSR and ESG criteria since the outbreak of the revolution of January 14th, 2011, the results show that these criteria are fairly well known by our interlocutors. As part of an investment allocation decision, the ESG criteria are considered as secondary to financial ones. The three criteria are classified as follows according to their usefulness in the investment choices of financial professionals: corporate governance, social and environmental.

Research limitations/implications – In addition to the subjective nature of the data collected, this research is limited to the input of only financial professionals. It does not inform us about ESG indicators that may influence the investment decisions of financial professionals, and thus this issue deserves further reflection.

Originality/value – This exploratory study sheds light on a little-explored topic in Tunisia, country at the origin of the Arab Spring. It contributes to the existing literature in the areas of investor behavior toward ESG criteria and adds to the limited literature in the area of emerging countries.

Keywords Emerging country, Exploratory survey, ESG criteria, Financial professionals

Paper type Research paper

Introduction

The corporate social responsibility (CSR) movement has grown rapidly in recent years, giving rise to some genuinely socially responsible industries (Naro, 2005). Its emergence in the business sphere generated several notions like environmental, social and governance criteria (ESG), social performance and socially responsible investment (SRI) to name a few. Thus, ESG criteria fall within the concept of CSR (Khemir, 2014). The terminology “ESG criteria” appeared in the Principles for Responsible Investment launched by Kofi Annan in New York, on April 27, 2006. These criteria aim to integrate ESG issues in investment portfolio management. Offering a comprehensive assessment and improved visibility of the company, ESG criteria are likely to improve prevention of non-financial risks.

If previously these criteria were relevant to socially responsible investors, they are now also considered by mainstream investors. Carluher and Richard (2002) believe that the traditional investment choice criteria which are limited to financial performance and risk, neglect many aspects of a company's business. Bassen and Kovacs (2008) emphasize the importance of ESG criteria for a complete and comprehensive financial assessment of a company. Indeed, financial criteria are important, but certainly insufficient for a comprehensive evaluation of a company. Novethic (2010) distinguishes between the SRI strategy, a management strategy that systematically integrates ESG criteria in the selection of companies in the portfolio, and ESG integration which aims to integrate ESG issues into mainstream asset management to varying degrees, but without that translating into a systematic impact on the selection of portfolio securities.

The analysis of ESG criteria has been the subject of much research, mostly in developed countries (Teoh and Shiu, 1990; Adams and Frost, 2008; Galbreath, 2013; Cohen *et al.*, 2011;



Ioannou and Serafeim, 2010; Eccles *et al.*, 2011; Berry and Junkus, 2013; de Zwaan *et al.*, 2015; Van Duuren *et al.*, 2016). Little research has, however, been devoted to emerging countries (Chen *et al.*, 2003; Zramdini and Fedhila, 2003; Khemakhem and Turki, 2007; Wahba, 2008; Xu *et al.*, 2012). In this research, we have chosen to focus on ESG criteria in an emerging country, namely, Tunisia which has faced several political, economic and social changes since 2011. The choice of this country is due to the emerging nature of its economy and our desire to explore a context whose “conscience” in this area is developing especially after the revolution of January 14, 2011. Tunisia has not yet entered the era of SRI. However, in this country, ESG has started to become a growing concern (Ben Rhouma *et al.*, 2011). Several reforms have been initiated in favor of CSR. Compared to the Maghreb countries, in 2016 (www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:11001:0::NO::) Tunisia was in the first place in terms of International Labor Organization (ILO) conventions ratified and in force. Moreover, despite the growth and development of CSR reforms, it is still relatively unknown as to how investors interpret CSR and ESG criteria. It is also uncertain as to how investors integrate a firm’s ESG practices into their investment decisions. This research aims to explore the perception of ESG criteria by mainstream investors in Tunisia, country facing several challenges in a post-revolutionary context.

To our knowledge, this research is the first to explore the perception of ESG criteria by mainstream investors in the Tunisian context. It will certainly enrich, complement and contribute not only to the existing literature related to this context, but also to that on emerging countries. It will help to clarify the debate on a question that has not yet been studied in the Tunisian context, a question which will arouse the interest of accounting standard setters, companies and investors, especially after the revolution of January 14, 2011. It is likely to guide the efforts of accounting standard setters and legislators toward the need to improve standardization and the establishment of a regulatory framework for ESG practices in order to meet the needs of decision makers. It presents an important implication for companies to adapt their ESG strategies to the information needs and the expectations of the actors in the financial market in order to help them in their investment decisions. Similarly, it is likely to sensitize the Tunisian university community to the need to open up to the challenges of CSR, by the professionalization of students on ESG issues or at least by integrating these dimensions in the training of future managers in various sectors (finance, management, commerce, etc.).

The first section is dedicated to the conceptual framework. The second section presents the research methodology. The third section is devoted to the presentation and interpretation of results. The last section discusses the results.

Literature review

If in the past ESG criteria were synonymous with SRI, now they have significance in the assessment of companies and making investment decisions in a mainstream framework. Bassen and Kovacs (2008) argue, in this sense, that the evaluation of ESG issues enables a thorough understanding of the risks and opportunities that a company faces. According to Bourghelle *et al.* (2009), the integration of ESG criteria by mainstream investors in their investment decisions is most certainly motivated by purely financial considerations. For Galbreath (2013), ESG issues are of interest to investors, shareholders and governments as a means of risk management, and for companies as a part of their competitive strategy. Thus, there is a growing consensus that ESG factors are important components of risk management and a potential source of long-term value creation (O’Neill, 2009). Their non-inclusion maybe interpreted as a sign of careless management (EIRIS, 2009).

The literature explicitly examining ESG is relatively new (Galbreath, 2013). Most ESG-related research has been conducted focusing on developed countries, namely, the USA (Ioannou and Serafeim, 2010; Eccles *et al.*, 2011) and Australia (Teoh and Shiu, 1990; Galbreath, 2013; Berry and Junkus, 2013; de Zwaan *et al.*, 2015; Van Duuren *et al.*, 2016). Little research has focused

on emerging markets. Instead, it has analyzed ESG-related information in Asia (Chen *et al.*, 2003), Egypt (Wahba, 2008) and China (Xu *et al.*, 2012). Tunisia, like other emerging countries, has been the subject of research considering the ESG through ESG-related information (Zramdini and Fedhila, 2003; Khemakhem and Turki, 2007). To our knowledge, however, no study has explored the perception of these criteria by mainstream investors in this country.

Main research related to ESG criteria in developed countries

Several studies have focused on ESG criteria in developed countries. Some have placed themselves on the side of financial stakeholders and discussed the place of these criteria in investment decisions (Teoh and Shiu, 1990; Cohen *et al.*, 2011; Ioannou and Serafeim, 2010; Eccles *et al.*, 2011; Berry and Junkus, 2013; de Zwaan *et al.*, 2015; Van Duuren *et al.*, 2016). Others have positioned themselves on the side of companies and analyzed their ESG practices (Adams and Frost, 2008; Galbreath, 2013). The results seem to converge regarding the interest of these criteria for both investors and companies. The results seem divergent regarding the classification of the relative importance of each of the three criteria. In the Australian context, Teoh and Shiu (1990) show that institutional investors value the engagement of companies in a CSR approach. Cohen *et al.* (2011) find that economic performance ranks first in terms of importance in the investment choices of retail investors, while corporate governance and CSR, respectively, occupy second and third place. In the American context, Ioannou and Serafeim (2010) show that companies engaging in a socially responsible approach are the subject of more favorable recommendations from sell-side analysts than those who are not. Eccles *et al.* (2011) highlight that the financial market is strongly interested in performance and ESG policies. They also find that at an international level, the interest given to the environmental dimension and corporate governance is higher than the interest shown in the social dimension. Berry and Junkus (2013) find that retail investors prefer considering ESG criteria in more holistic terms rather than using exclusions. Investors seem to prefer rewarding companies that exhibit social behavior rather than excluding companies based on certain practices. They find that the environmental dimension dominates the other two in terms of relevance for investment decisions. de Zwaan *et al.* (2015) show that most members of pension funds are interested in the integration of ESG criteria in the investment decisions of their funds, with a preference for issues related to corporate governance, followed by social and environmental issues. An international survey by Van Duuren *et al.* (2016) shows that many conventional fund managers integrate ESG criteria into their investment practices and are primarily interested in the dimension relating to corporate governance. A significant difference was found in how American and European managers consider ESG. Amel-Zadeh and Serafeim (2018) show that investors use ESG information because it is financially relevant to investment performance and consider that engagement with firms can make changes in the business sector to address ESG issues. By adopting a qualitative approach based on semi-structured interviews with the staff of British and Australian companies, Adams and Frost (2008) demonstrate that companies integrate environmental and social indicators in their strategic planning, in their performance determinations and in their decisions regarding risk management. Galbreath (2013) examines how Australian Securities Exchange 300 firms meet ESG issues. He shows an improvement of ESG performance between 2002 and 2009. The performance on governance improved at a greater rate than the environmental and social performances.

Main research related to ESG criteria in emerging countries

Little ESG-related research has been conducted in emerging countries. Chen *et al.* (2003) observe that investing in a company rated well in terms of corporate governance is likely to generate, on average, 8.5 percent of abnormal return. Moreover, they notice that corporate governance communication does not play an important role in reducing information asymmetry in emerging stock markets, such as that in Asia. Wahba (2008) conducts

a reaction study in the Egyptian context to analyze the influence of the commitment to a policy of environmental responsibility by companies on their market value. The results show that the Egyptian financial market rewards companies that adopt an environmentally responsible strategy. Xu *et al.* (2012) analyze the stock market reaction following the communication of information relating to events affecting the environment by 57 Chinese listed firms. The results reveal that negative environmental events have little impact on the stock market. In Tunisia, Zramdini and Fedhila (2003) demonstrate that the societal information is perceived as useful for loan granting decisions by Tunisian credit analysts in a long-term vision, especially when it is presented in a quantitative form and published by an independent body. Khemakhem and Turki (2007) conclude that environmental information affects investment decisions in the Tunisian context insofar as the worst environmentally performing company lost 13 percent of invested funds and the one with the highest known performance experienced a 22 percent increase in invested funds.

As we can see, most ESG-related research has been conducted in relation to developed countries namely, the USA (Ioannou and Serafeim, 2010; Eccles *et al.*, 2011; Berry and Junkus, 2013) and Australia (Teoh and Shiu, 1990; Cohen *et al.*, 2011; Galbreath, 2013), thus limiting the understanding of ESG to a very small sample (Galbreath, 2013). Indeed, the increasing demand for CSR is not limited to developed countries (Van Staden *et al.*, 2011). Significant interest has been expressed in recent years in favor of CSR reports published by companies in emerging countries (Sumiani *et al.*, 2007). Kumar *et al.* (2018) emphasize the importance of evaluating non-financial reporting practices in the context of emerging economies. As a result, we think it is interesting to explore ESG criteria in the context of emerging countries. Moreover, we have noticed that there is a trend toward the analysis of the importance and the relevance of ESG information for investment decisions in the context of these countries essentially through experiments or reaction studies. Several studies attest to this, such as that of Wahba (2008) in Egypt, and those of Zramdini and Fedhila (2003) and Khemakhem and Turki (2007) in Tunisia.

In this research, we chose to explore the ESG criteria in Tunisia. Conducting our research in the context of an emerging country seems very useful to the extent that this will certainly enrich and complement not only the literature related to this context but also the existing literature on ESG disclosure in emerging markets. It will contribute to the debate on an issue that will engage accounting standard setters, companies and users of information, especially now, after the revolution of January 14, 2011, that the Tunisian Government has chosen to actively promote the CSR culture and has shown a willingness to define a national implementation strategy of socially responsible activities in Tunisia. CSR can bring progress toward new forms of governance and regulation in the service of greater social well-being. It is true that two studies have examined this context, namely, that of Zramdini and Fedhila (2003) and that of Khemakhem and Turki (2007), however, what differentiates our research from these other two studies is that it takes an exploratory approach to examine in detail a problematic that remains unexplored in the Tunisian context. Indeed, since we do not have precise information on the subject, and the literature on the country is limited, we believe it is necessary to conduct an exploratory study to gain understanding concerning the state of the art of ESG criteria before proceeding to experimentation and reaction studies. Thus, conducting our research in an emerging country seems very useful to the extent that it could draw attention to the need for improvement, development and popularization of ESG criteria in this context which has faced several political, economic and social changes since 2011. Similarly, previous research regarding emerging countries has generally addressed one criterion of ESG criteria, either the environmental criterion (Wahba, 2008; Khemakhem and Turki, 2007), or the social criterion (Zramdini and Fedhila, 2003) or the corporate governance criterion (Chen *et al.*, 2003). As part of our research, we propose analyzing the three criteria at once. Focusing on a single criterion could be problematic to the extent that these three criteria are not mutually exclusive, but interconnected (Galbreath, 2013).

Research design

Initially, the method used for this research was focus groups with financial professionals. Facing low participation rate, we found it necessary to complement focus groups by semi-structured, face to face interviews.

Conduct of interviews

Focus groups were held in the offices of Social Consult[1] while the semi-structured interviews took place in the participants' workplace. All interviews began with an introduction, the purpose of which was to present the aim of the research, emphasizing the importance of the participant's opinion, and informing them of the terms of the conduct of the interview (about privacy, permission for the recording of the interview). To ensure some harmonization and consistency in conducting the interviews, the discussion was focused around an interview guide with preset themes. Data collection continued until the achievement of the principle of saturation (Giordano, 2003). This is achieved when adding information seems less and less productive of new knowledge (Giroux, 2003).

Coding

The focus group sessions and the semi-structured interviews, lasting from 1 h to 3 h, were recorded to ensure the collection of all the words. Notes, too, were taken. A full transcript of the tapes was made to facilitate the analysis of discourse and comments gathered during the interviews. The method of thematic content analysis was applied manually to analyze the output of the transcripts, made word for word, and that according to two complementary approaches: between interview and within-interview (vertical approach[2] (interview by interview) and horizontal approach[3] (theme by theme)).

Sample

Our survey was conducted with 23 financial professionals: 19 financial analysts (11 sell-side and 8 buy-side) and 4 portfolio managers. The sample needed for the realization of an exploratory investigation is, in general, reduced insofar as information from interviews are validated by the context and do not need to be validated by their likelihood of occurrence (Blanchet and Gotman, 2010). These professionals were selected for their ability to collect information, which is of great interest for investors who, due to lack of time and/or expertise, use their services to inform their investment choices (Galanti, 2006). The distribution of participants between the focus groups and semi-structured interviews is presented, respectively, in both Tables I and II.

The demographic characteristics of the interviewees are provided in Table III.

Table I.
Number of
participants in
focus groups

	1st focus group	2nd focus group	3rd focus group
Number of participants	3 sell-side analysts	2 buy-side analysts	4 portfolio managers

Table II.
Number of semi-
structured interviews
by analyst category

Types of interviews	Sell-side analysts	Buy-side analysts	Total
Individual	2	2	4
By two	3	2	5
Total number of interviews	5	4	9
Number of interviewees	8	6	14

	Sell-side analysts	Buy-side analysts	Portfolio managers	Total	ESG criteria by mainstream investors
<i>Professional experience</i>					
1–3	2	0	1	3	
4–5	5	0	1	6	
6–10	2	6	0	8	
+10 years	2	2	2	6	
<i>Level of study</i>					
PhD	1	0	0	1	
DAS/Research Master	6	2	0	8	
DSGS/Professional Master	4	2	2	8	
Mastery	0	0	1	1	
Other	0	4	1	5	
<i>Specialty</i>					
F	5	5	0	10	
FE	2	2	0	4	
MFI	1	1	1	3	
ECO	2	0	1	3	
Other	1	0	2	3	
<i>Number of securities followed</i>					
10–19	3	1	0	4	
20–30	4	2	0	6	
+30	3	1	4	8	
Notes: DAS, diploma of advanced studies; DSGS, diploma of specialized graduate studies; F, finance; FE, financial engineering; MFI, management of financial institutions; ECO, economy					

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Table III.
Demographic
characteristics
of the interviewees

Results

Thematic analysis of the outputs of the transcription of focus groups and semi-structured interviews revealed various information structured around three themes.

Interpretation and content of CSR and ESG criteria for financial professionals

During the interviews, we observed that the evocation of ESG criteria was a real obstacle for the large majority of the interviewees. Therefore, we introduced the question: what is CSR? The underlying purpose of this question was to explore to what extent these actors were able to mobilize this notion.

Interviewees defined CSR with particular reference to a company's obligations in respect to:

- its employees: "it guarantees the social rights of its employees" (Focus group 1);
- transparency: "it is transparent; it applies an adequate work ethic" (Focus group 1);
- rational use of resources: "ultimately its purpose is to use fairly and efficiently the resources at its disposal to produce products of good quality [...], for us, that's CSR, it is how the company can produce fairly and effectively taking into consideration the whole context in which it is doing work" (Focus group 2);
- environmental respect: "those are companies that respect the environment and whose investment policy is part of a label that conserves resources for future generations" (Interview 3 with two sell-side analysts); and
- compliance with laws: "[the company] must already comply with the regulations in force in the country, or perhaps even on a global scale, obey certain rules even if the country is behind in terms of regulations to try to be consistent with international standards whether they are labor standards or environmental regulations" (Interview 1 with a sell-side analyst).

As we can see, some elements refer to the definition of CSR proposed by Carroll (1979). This definition is broken down into four categories of responsibilities: discretionary responsibility, ethical responsibility, legal responsibility and economic responsibility. CSR carries with it a new conception of the company. A conception, rather oriented toward the recognition of all company' stakeholders: its shareholders and its managers, its employees, its customers, its suppliers, etc. (Vasseur, 2009).

ESG criteria were not thoroughly identified by all the interviewees, but all indicated that they knew them. When we asked for examples of ESG criteria, they cited essentially.

E criteria: pollution control, recycling and use of recycled materials, renewable energy, etc.

S criteria: social fund, granting loans at preferential rates, collective convention, social dialogue, professional training, working conditions, stock options, etc. For the societal aspects: societal commitment, donations, event promotion, etc.

G criteria: board of directors, representation of employees and minority shareholders, duality and management experience, audit and control mechanisms, executive credit committee in banks, transparency, etc.

Thus, CSR and ESG criteria are fairly well known to our interlocutors. Buy-side analysts seem more familiar with these concepts, since they have business relations with foreign investors, and international financial institutions are among their backers. Most sell-side analysts and portfolio managers have difficulty defining CSR and recognizing indicators in connection with ESG criteria. There is a problem in training these professionals and taking CSR into account in their reasoning schemes. After the revolution, Tunisian academia needs to organize itself to face the challenges of integrating ESG dimensions into the economic world. A number of steps need to be taken to strengthen the teaching of CSR in the education system. If the ESG stakes seem to be a societal demand on companies in the post-revolutionary context, we can then assume that education opens up to this demand, particularly through the professionalization of students on these issues or at least integrating these dimensions into the training of future managers in various sectors. Tunisian society is becoming more and more demanding, hence there is a need to adapt the Tunisian university system to the requirements of the market.

In an attempt to explain their poor knowledge of the concepts related to ESG criteria, most interviewees agreed that these concepts are not yet "anchored" in the Tunisian context: "This is a luxury that we will not offer for this moment, besides it is the case for all emerging countries" (Focus group 1). Before the revolution, the Tunisian economic context seems relatively uncertain. The accumulation of all economic difficulties makes any awareness of environmental and social issues difficult by Tunisians. The latter remain preoccupied above all by their survival, whether at the level of citizens or socio-economic actors.

Our interviewees evoked the specificity of the Tunisian entrepreneurial base which is essentially composed of small and medium-sized family firms, "our industrial base is a family base, most companies are family companies that are only interested in numbers and results" (Interview 9 with two sell-side analysts), "the majority of Tunisian companies are over 40% owned by families, so we talk about family problems more than corporate governance" (Interview 6 with a sell-side analyst).

Our interlocutors also reported that regulatory measures appear flexible and non-binding: "at the Commercial Companies Code, there is the possibility for an employee to sit on the board of directors, it is established by law, but there is no obligation" (Interview 3 with two sell-side analysts); "even if the sanction exists, it is insignificant and sometimes it is not applied" (Interview 3 with two sell-side analysts).

The professionals we surveyed made reference to the culture and mentality of managers and local investors, "it's always the old culture, the old mentality" (Interview 9 with two sell-side analysts); "it depends on the mentality, as the mentality has not changed, we can find ways to circumvent the law" (Interview 8 with two buy-side analysts). The interlocutors

emphasized that in terms of governance, for example, corporate managers have difficulty in accepting delegation of the management of their assets to someone else. Investors behave to optimize short-term gains and are looking for instant returns; “they require performance even before opening the account” (Interview 3 with two sell-side analysts).

Finally, it should be noted that the interviewees wished that more emphasis be placed on ESG criteria in the future, but as part of a voluntary approach and not as a requirement. A buy-side analyst suggested that it is necessary to “go gradually, encourage and punish, and after that take the step of creating laws” (Interview 5). Our interlocutors seemed optimistic about the future of ESG criteria in the Tunisian context; “that is a topic for the future, and like a lot of experts say, the next bubble will be green” (Focus group 1); “these criteria are becoming increasingly important in the world [...] Tunisia is undergoing globalization” (Interview 7 with two buy-side analysts). In the future, companies will be confronted with various strategic, operational and managerial issues, “[...] they must adapt to keep their competitive advantage” (Focus group 1). In a post-revolutionary context, Tunisia is called to find a way to combine economic development and social and environmental concerns. It must inspire or emulate modern western models of ESG criteria. This considerable challenge certainly brings socio-economic actors to adopt innovative approaches in terms of CSR. Democratic reforms, which entail proper regard for human rights and the rule of law, are likely to secure a positive investment climate and to foster investor confidence (Ahmed, 2017).

Motivations of existing corporate practices in the ESG field

Interviewees stated unanimously that ESG criteria are “starting to develop” (Interview 9 with two sell-side analysts) and are being incorporated by some Tunisian companies in their strategic approaches. According to a large majority, more and more companies consider ESG criteria in their activities: “There is a progressive awareness of that, but this is far from being the case for all companies” (Interview 7 with two buy-side analysts).

Recent years have seen a growing interest expressed by the Tunisian legislature surrounding the concept of CSR, especially after the revolution of January 14, 2011 through the implementation of several programs, including:

- the completion of an agreement within the Committee on Constitutional bodies related to the establishment by the new constitution of the three bodies responsible for CSR matters: the independent body of sustainable development and future generations rights; the national body for human rights; and the national body of governance and fight against corruption;
- CITET[4]–GIZ[5] accompanying program of the Global Compact of United Nations for the promotion of CSR; and
- the National Conference on the theme of “Corporate Social Responsibility: a leitmotif in the heart of the News” held on April 16, 2013 in the Tunisian Union of Industry, Trade and Handicrafts.

The implementation of programs to promote CSR among Tunisian companies varies by firm characteristics, including size, listing status and activity sector. Our interlocutors insisted on firm size and on the fact that they are listed on the stock exchange, or they hope to be listed soon: “I think it must be correlated with size because when we are a small company, we do not have big budgets, so we focus on company survival, but when we reach a certain size, at that moment we will realize potential risks and we will be able to allocate budgets to these dimensions specifically” (Interview 4 with a buy-side analyst).

A listed firm was expected to be more transparent than the others “since it made its offering, the least one can expect is that it manages its social problems” (Interview 1 with

sell-side analyst). However, two analysts argue that “it generally depends on sectors, we cannot generalize for all sectors” (Interview 9 with two sell-side analysts).

For the environmental dimension, the nature of the activity sector seems determinant as to its importance. These are the industries that are rather more concerned with environmental preservation, waste treatment, etc.: “For the environmental aspect, it varies by industry, if it is an industrial company, it becomes more technical and if it is a service company or others, it is more limited” (Interview 4 with an analyst buy-side).

When we asked what explains the fact that some companies attach importance to ESG dimensions and make an effort, although slight, to communicate corresponding information, some interviewees stated that when facing a weak financial performance, the emphasis will be put on these dimensions. This is an attempt “to distract investors [...] it’s true that we are not successful on the financial side but we are making some changes to the management level (strategic plan, social policy [...])” (Interview 3 with two sell-side analysts). Similarly, some analysts suggested the attraction that legal measures such as tax benefits could present as incentive, “if there is a legal obligation, they will stick to the legal obligation and mention it in the prospectus” (Interview 9 with two sell-side analysts).

Improving brand image and notoriety were also cited as motivating factors. A sell-side analyst mentioned that thanks to ESG dimensions, the companies are able to “attract well-trained people who are looking for a professional future in line with their skills” (Interview 1). Indeed, CSR gives companies an image effect when social and environmental commitment is real. It should not appear as a burden penalizing the activity of the company. On the contrary, it can contribute to improving overall performance (Vasseur, 2009). Also mentioned were the impact of securities purchases emitted by foreign investment funds concerned about sustainable development. The desire to conquer new markets abroad and/or the search for partnerships were also cited. Having an ISO 14001 certification allows companies to market their products more easily. The case of subcontracting was also mentioned. Companies can suffer strong pressure from purchasers for the consideration of criteria relating to the environment and respect for human rights through the fundamental conventions of the ILO. In this sense, a buy-side analyst stated that “a firm that wants to export, if it does not have a minimum of standards, it can hardly pass” (Interview 5). Companies that have business relations abroad are obliged “to follow international standards” (Interview 9 with two sell-side analysts) to be compatible with changes in standards.

Interviewees discussed the emergence of a new generation of businessmen who have pursued their studies in Anglo-Saxon or French business schools and who have become the vectors of ESG criteria introduction. A sell-side analyst said “there is an improvement because it is a change of generations, this is a new generation of businessmen or company owners who have different training” (Interview 3).

Competition was highlighted as a factor that could encourage companies to be more favorable with regard to ESG criteria. According to a buy-side analyst, “executives are aware of the development of the multinationals setting up here. Because of this (local executives) fear losing the benefits, which are employees, companies are trying to be in the image of these multinationals and thus to establish a well-defined system of governance and conduct socially responsible actions” (Interview 8).

With the revolution, Tunisian companies are confronted with a radically new situation in which it is no longer possible to relate to any reference point. The political, economic and social crises have encouraged the emergence of a new social contract. It would be appropriate for companies to adopt universal values in their practices (respect for human rights, good working conditions, protection of the environment, etc.) and to reinforce existing corporate practices in the ESG field to ensure their sustainability in a socio-cultural

context characterized by various social movements related to increased precariousness and rising cost of living.

ESG criteria by
mainstream
investors

It is interesting to note that our interlocutors complained about the lack of available ESG-related information. They seemed dissatisfied with the informational efforts of Tunisian companies in this regard. A buy-side analyst affirmed that “there is no such information in detail [...] there is always a small report on what has been done on the environmental and social angles, it is really succinct and reserved for the board” (Interview 5). A sell-side analyst said “it is not required, therefore, it is not available all the time” (Interview 3). This lack of availability of information can, in some cases, be conducive to rumors: “Informational effort is limited, even non-existent, and is now giving free rein to market rumors [...] there are too many rumors and rumors come from the lack of information” (Interview 3 with two sell-side analysts). A sell-side analyst believes that the adoption of International Financial Reporting Standards (IFRS) can improve communication practices “if we adopt IFRS, it will be a new beginning [...]” (Interview 3). The interest in ESG reporting comes from the fact that it provides information on triple bottom line performance. The surveyed professionals considered that the informational effort of Tunisian companies on ESG criteria remains marginal and meets with a major obstacle, namely, the discretionary nature of ESG information and the absence of restrictive regulatory requirements. They expressed their wish to have ESG reference indicators to facilitate its use and integration in their investment choices.

After the revolution, companies have to face different challenges. They are expected to adopt better communication practices and make their ESG information more widespread in order to increase their transparency and thus attract more investors. CSR seems an attractive bet for investors in the long-term.

The integration of ESG criteria into investment decisions

ESG criteria pass after traditional financial criteria, but our interlocutors nevertheless evoked their usefulness depending primarily on the type of investment under consideration (partnership decision or stock market investment) and investment horizon (short-term vs long-term). For Carlier and Richard (2002), traditional financial criteria are necessary but insufficient in order to have a clear idea about overall corporate performance. In order to have a global vision concerning the consequences of companies’ activities, it is important to verify the achievement of economic and ESG objectives.

Interviewees said they take into account ESG criteria in the preparation of a diagnostic or a financial analysis, “we look at all that is social, workforce evolution, training, work accidents, absenteeism, etc.” (Interview 5 with a buy-side analyst). Thus, ESG criteria are indicators that “help in making investment decisions” (Interview 8 with two buy-side analysts). They are used to support a decision or a recommendation to buy, sell or keep a security, but do not in any way constitute a principle or unique determinant for an investment decision: “these are not criteria that come out in the first place” (Interview 5 with an analyst buy-side). Thus, in their investment decisions, investors need comprehensive information, which is not limited to the financial dimensions, but also naturally extends to the ESG dimensions. This certainly reflects a hierarchy of emergencies and a horizon constrained by the socio-political and economic situation of the country. ESG criteria provide good indicators. They provide insights into how the company is managed as a whole, and therefore can help predict long-term corporate performance (BSR Report, 2008). As a result, failure to take these criteria into account may seem to be a sign of imprudent management (EIRIS, 2009).

Some interlocutors emphasized that the integration of ESG criteria also depends on the type of investor. They pointed out that investors who invest in unlisted companies are often private equity funds interested in ESG issues. In this case, after investing, these funds are

likely to help the targeted companies implement best practices. On the other hand, speculators who invest directly in the stock market tend to limit their analysis to financial criteria. There is growing consensus that ESG criteria are important components of risk management and a potential source of long-term value creation (O'Neill, 2009). According to Kotsantonis *et al.* (2016), portfolios that incorporate "material" ESG measures provide their investors with higher average returns than conventional portfolios, while presenting lower risk.

According to our interlocutors, for a long-term investment, it would certainly be better to converge compliance with financial criteria and ESG criteria: "if in the short-term, that means greater expenses, in the long-term, it means that we value the company. That is why this investment will largely be justified" (Interview 4 with a buy-side analyst). "[...] Investments incorporating a sustainable development dimension are part of an approach that combines care and long-term vision" (Focus group 1). For the interviewees, integration of ESG criteria was more justified when it came to long-term investment, over five years in length. The idea is that the integration of ESG criteria guarantees the financial performance of long-term investment as these criteria offer better risk assessment and management. Incorporating ESG criteria into the analysis process provides a differentiated lens for identifying firms that have strong competitive advantages that can lead to value creation over time (Odell and Ali, 2016).

We noticed that the integration of ESG criteria can impact the valuation of companies if they are in the red: "those are criteria (ESG criteria) that I prioritize in a difficult situation, I can use them, otherwise it's relatively marginal in the decision to buy a security or not" (Interview 7 with two buy-side analysts); "if all criteria are negative, we pay attention even if the company is doing well, we know that the risk is significant and there can be an incident or an accident and indirectly penalize the investment security" (Interview 5 with a buy-side analyst).

The ranking of the relative importance of the three criteria for investment decisions is: governance, social and environmental. One interviewee described the hierarchy as follows: "management quality yes, all that is staff training, it depends on the activity sector, but all that is environment, this is very new [...] governance mechanisms influence the perception of the market value [...], I do not think the social or environmental are important criteria for decision making" (Interview 9 with two sell-side analysts). Almost all interviewees consider corporate governance as the criterion most useful to their investment decisions compared to the other two criteria: "it is a criterion that is important for investing in listed companies, it is governance which comes in first place given that good governance ensures that everything else follows, [...] governance promotes the establishment of a more transparent and more rigorous management structure and enables companies to increase the volume of their activities" (Interview 5 with a buy-side analyst); "this is the first thing we look at to introduce a company in the stock exchange [...] it is the first criterion seen as compared to the other two criteria [...] the decision to continue working on some files depends largely on corporate governance" (Interview 8 with two buy-side analysts). It is likely to impact environmental and social criteria "this is the locomotive of all that is qualitative criteria, it is governance that carries the rest [...] the environmental, the social [...]" (Interview 3 with two sell-side analysts). Governance seems to create a climate of confidence for investors. A sell-side analyst gave the example of a positive stock price movement for a bank following the appointment of a CEO with a proven track record. He said that later, on the day of his departure, the stock price fell (Interview 1). The nature of the context plays a significant role in the importance given to governance criterion. Corruption and poor governance were among the factors that contributed to the outbreak of the revolution in Tunisia.

Interviewees said they are struggling to integrate ESG criteria into their investment decisions due to the lack of a universally accepted definition of these criteria: "concretely, it is difficult to assess these criteria [...] if there was a questionnaire or series of employee

satisfaction questions, I could say in this case that this company has a clear social policy with objectives according to its performance [...]. There is no company that has done a questionnaire, made a survey of its staff" (Interview 3 with two sell-side analysts); "we must first know what the criteria are because maybe they are not the same as those in developed countries [...] because the needs are not the same, nor the development process [...] we must define the criteria first" (Focus group 1). The second difficulty emanates from their qualitative character, some participants indicated that from the securities analysis point of view, these indicators do not make a lot of sense; "there is a problem of quantification of these criteria, making their integration in investment decisions difficult" (Interview 7 with two buy-side analysts). The renewal of the social contract following the revolution is likely to favor the institutionalization of the ESG criteria in Tunisia. It is necessary to put in place new reforms and institutional reorganizations to improve transparency in all sectors, particularly those affected by corruption.

Finally, some of our interviewees spontaneously mentioned the existence of criteria equivalent to ESG criteria in the financial market: "in Tunisia, maybe not specifically, but in the Muslim world, we have something that is equivalent, that comes closer to ESG criteria which is Shariah-compliant which, roughly, draws its sources in responsible investment, tangible assets, social responsibility [...] with some criteria being more important" (Focus group 1). They revealed that there are investors that incorporate religious criteria in their investment decisions. These investors want to invest in accordance with their religious beliefs by associating religious precepts with their economic actions. They exclude from their investments "shares of sin" such as banks, insurance companies, leasing companies and distribution companies. The religious practices of these investors have favored the creation of Islamic mutual funds in Tunisia. These funds are perceived by the surveyed professionals as a product especially designed to attract "customers who want to invest in an Islamic manner and to recover many customers who started fleeing the stock market because they do not want to buy into banks, leasing companies, distribution companies [...]" it is a loss leader" (Interview 2 with two sell-side analysts).

Discussion

The results found appear consistent with the Tunisian reality. The post-revolution economic situation weighs or even conditions the choices of financial professionals. First, it appears that CSR and ESG criteria are fairly well known by Tunisian financial professionals, confirming the results by Golli and Yahiaoui (2009) who find that CSR seems like a vague concept for Tunisian managers who tend to use the words social responsibility and sustainable development in an interchangeable manner.

Beyond the deterioration of the economic landscape following the 2011 revolution, the results show multiple factors that explain the fact that ESG criteria are not very well known or widespread in the Tunisian financial market: the composition of the Tunisian entrepreneurial base of family companies and SMEs, the flexibility of laws, the culture and mentality of managers and the opportunistic behavior of investors favoring short-term investments. This is consistent with the findings of Social Consult (2005) that showed the lack of conviction of managers and the existence of other strategic priorities for companies are obstacles to developing CSR practices in Tunisia.

However, most respondents admitted that there is some awareness of the importance of ESG criteria within some companies, especially in a post-revolutionary context. Such awareness proves to be variable depending on the size, the stock exchange listing and the activity sector of the company. A study by Khemir and Baccouche (2010) also shows that the social reporting of listed Tunisian firms depends on their political visibility taken as their size. In the same vein, Saha and Akter (2012) find a positive relationship between environmental

reporting and profitability in Bangladesh. Cowen *et al.* (1987) show that the size of the company significantly influences its disclosure about the environment and energy.

According to the interviewees, the sector of activity also makes a difference for companies in regard to the consideration of ESG criteria. This is in line with the findings of Zramdini (2011) who emphasizes that belonging to a polluting sector is a determinant for environmental actions of Tunisian companies. Similarly, Zeghal and Ahmed (1990) show heterogeneity in the CSR communication practices of banks and oil companies in Canada. According to Patten (1992), companies in the most polluting sectors tend to be subject to much more intense pressure from stakeholders than companies in other sectors.

The interviewees remarked with frustration about the lack of available ESG-related information due to the lack of precision provided by accounting standards regarding the nature of ESG information to communicate, and calls into question of the use of such information in investment decisions. According to Amel-Zadeh and Serafeim (2018), the biggest challenge to using ESG information for investment allocation decisions is the lack of comparability of reported information across companies.

Thanks to the interviews it became apparent that compared with financial criteria, ESG criteria are less important for investment decisions. The integration of these criteria in investment decisions depends on the type of investment and the investment horizon. This is in line with the conclusions of Saghroun and Eglem (2008) who find that social and environmental information are of moderate interest to financial analysts in France, and that the short-term view of the market is always advanced by this group to justify the lack of importance of the concepts related to sustainable development.

Our interlocutors indicated that the corporate governance dimension is prioritized over social and environmental dimensions in terms of importance for investment decisions. This seems consistent with the results of Saghroun and Eglem (2008) who find that corporate governance is the central theme for financial analysts, compared to environmental and social criteria. More recently, de Zwaan *et al.* (2015) also find that Australian superannuation fund members show a preference for governance issues over both social and environmental ones. The importance given to corporate governance seems consistent with the reality of the Tunisian context.

Interviewees spontaneously evoked the emergence of new investment criteria in the Tunisian financial market, namely, religious criteria. These criteria have pushed some stock brokerage firms to establish Islamic funds to meet the investment needs of some investors who are looking for an economic return in accordance with the principles of their religion. This supports the findings of Golli and Yahiaoui (2009) who find that Tunisian managers have a legal-ethical conception of CSR based on local religious values. According to Saiti and Noordin (2018), Islamic equity investments are likely to provide diversification benefits to mainstream investors.

Conclusion

Until now, research on ESG criteria in the Tunisian context has remained scarce. The current practices related to ESG criteria do not seem sufficiently developed either for companies or investors. In Tunisia, the institutional framework seems to have been favorable to CSR since independence. Many conventions related to human rights, labor rights and environmental protection rights have been ratified. There was an increase in interest shown by Tunisian legislator concerning the concept of CSR, especially after the revolution of January, 14 2011 through the implementation of several programs. After a difficult period in 2011, the Tunisian economy started to gradually recover. Tunisia was faced a number of challenges. It was called upon to put in place a new economic, social and environmental model to address current problems in almost all areas. Likewise, it was led to promote the respect of standards related to good governance and the fight against corruption. All of this is likely to contribute to spreading a CSR culture. Consolidation of regulatory mechanisms to promote CSR could support integration of ESG criteria in the

Tunisian financial market. Recent provisions are likely to improve the interpretation and activation of these criteria for both companies in their activities and financial professionals in their investment allocation decisions.

Tunisian context deserves to be the object of academic research in order to draw conclusions and make the necessary improvements. We believe that it is important to carry out research on Tunisia in order to position the country in relation to other emerging and developed countries, and to explore the similarities and differences that allow drawing useful conclusions.

The Tunisian revolution requires modes of development based on the right balance between the economic, social and environmental dimensions. It is important for Tunisia to develop ESG criteria to attract new investors interested in sustainable growth and long-term performance and therefore be in tune with developed countries. This can happen by anchoring a culture of CSR through strengthening the teaching of CSR in the education system, the consolidation of business dialogue with stakeholders, the development of CSR in SMEs, more transparency and more accessibility of ESG information, etc.

We consider that this study provides interesting results since corporate ESG practices in Tunisia must be revised. Indeed, relevant ESG information must be provided and presented in an appropriate manner and in line with investor expectations to assist them in their investment choices.

From this perspective, this study has important implications for companies to understand the relevance of ESG information and to improve their communication strategies and adapt them to the information needs and expectations of the actors in the financial market. This study also presents an important implication for Tunisian accounting standard setters since it can attract their attention to the need to standardize communication practices related to ESG information. The Tunisian standard setter is therefore called upon to implement guidelines that can be inspired by those of the Global Reporting Initiative. Such guidelines will improve and standardize corporate communication practices for ESG information. This will facilitate their use by investors in the financial market. Indeed, in the absence of a reference system, the latter are faced with very marginal, disparate and non-comparable communications that are therefore seen as irrelevant.

Like most qualitative research, in addition to the subjective nature of the data collected, it is limited to the interrogation of only financial professionals. If this first qualitative survey has allowed us to have an idea about the perception of ESG criteria in the Tunisian context, it has not informed us on ESG indicators that may influence the investment decisions of financial professionals, leaving us to think more about this issue.

In the future, we propose extending the study to other stakeholders such as managers and standards organizations, but also to other financial actors, such as bankers, accountants, insurers, etc. The opinions emitted by financial professionals in an interview may also not be representative of their behaviors in real life situations, especially when they have to analyze a company. For this reason, in the case of Tunisia, the study needs to be supplemented by an additional questionnaire survey and an experiment.

Notes

1. This consulting firm was responsible, from 2005 to 2007, for coordinating a project entitled "Sustainable Development through the Global Compact" in Tunisia.
2. It consists of working interview by interview. This is to spot in each interview the specific issues.
3. It consists of identifying the recurring themes from one interview to another within the total corpus.
4. Tunis International Center for Environmental Technologies.
5. Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (German development cooperation).

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Further reading

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