

Do commitments matter?

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Key findings

- Our latest analysis of banks suggests that their broader sustainability commitments can distinguish them from peers, both in their superior financial characteristics and sustainability practices.
- Based on a comparison of banks in MSCI's ESG Ratings coverage that have signed the UN Principles for Responsible Banking (PRB), PRB signatories had a lower weighted average cost of equity and debt capital than non-signatories over nearly a decade ending March 31, 2025.
- The PRB signatories also conduct themselves differently when it comes to factoring environmental and social practices into lending and governance. That includes adoption of policies for borrowers in emissions-intensive sectors, and board engagement.
- The analysis echoes both academic research and research by MSCI finding that sustainability commitments, especially when aligned with an industry alliance or credible standard, can constitute credible signaling, not just cheap talk.

Do commitments by companies to pursue sustainable practices benefit their bottom line or produce results in the real world?

The question is top of mind as a range of voluntary corporate commitments have come under scrutiny, with some critics dismissing them for promising too little, some for promising too much. Academic researchers Xiaoyan Jiang, Shawn Kim and Shirley Lu find that nearly one-third of corporate emissions targets ending in 2020 “disappeared,” without the company ever disclosing an outcome.¹

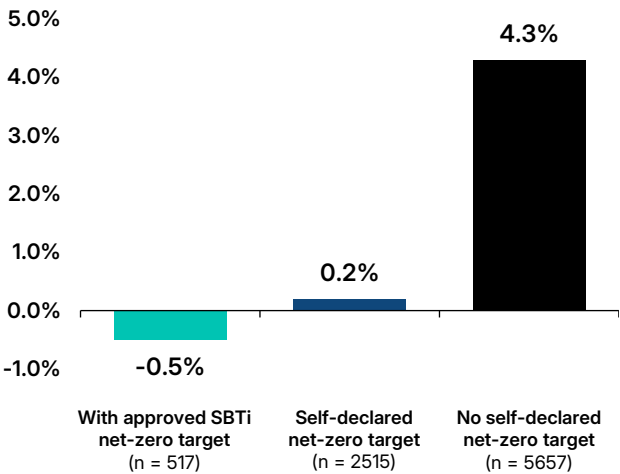
Answers to the question whether corporate sustainability commitments constitute more than what economists might term “cheap talk” are beginning to emerge. For financial institutions, one permutation of voluntary commitments has come in the form of membership in climate alliances. According to research published in May by Matteo Gasparini and Peter Tufano, both of Harvard Business School, membership in such alliances **has correlated positively with institutions reducing their own greenhouse gas emissions**, adopting environmentally friendly practices and targets, and advocating for policies designed to address climate change.²

Their research, which examines evidence from 11 global groups, finds that membership can itself encourage financial firms to boost their climate ambition as they share best practices, while **producing no anticompetitive impacts**, harm to shareholder returns or pullback in lending to traditional oil and gas companies. The findings parallel those by Viral Acharya, Robert Engle and Olivier Wang of New York University, who show theoretically, with empirical support, that commitments by large institutional investors to influence portfolio companies’ climate strategies **lower the cost of decarbonization and reduce transition risk for all companies (including themselves)** by spurring adoption of clean technologies while reducing pressure on governments to regulate or tax carbon emissions.³

Our own long-running research has shown that sustainability-related practices can produce business benefits, and our latest analysis helps illuminate the link between commitment and practice.⁴ The most recent edition of our Transition Finance Tracker, for example, shows that companies with climate targets have so far tended to back their targets with action.

Company Scope 1 emissions performance, by climate commitment type (median annualized change in absolute Scope 1 emissions, 2018-2023)

Median absolute Scope 1 GHG emissions among listed companies with a net-zero target approved by the Science Based Targets initiative, a corporate standard-setting body, fell by 0.5% per year between 2018 and 2023, compared with a median annual increase of 4.3% among those without such targets, based on our analysis. Other companies with self-declared net-zero targets (about 30% of listed companies) also reined in emissions more so than those without any targets, albeit with an average increase of 0.2% per year over the same period.



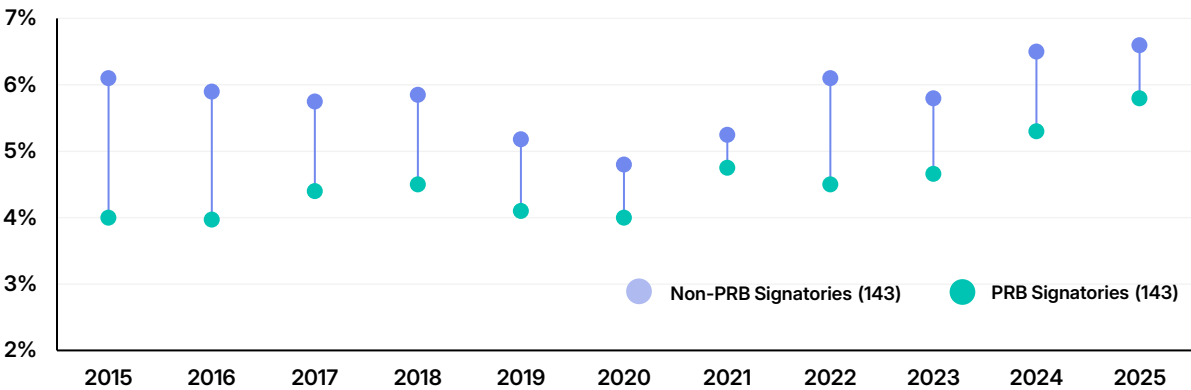
Source: MSCI ESG Research, data as of June 30, 2025.

Evidence from banking

Our latest analysis of banks suggests that their broader sustainability commitments can distinguish them from peers, both in their superior financial characteristics and responsible practices. We based the analysis on a comparison of financial institutions in MSCI's ESG Ratings coverage that were signatories of the U.N. Principles for Responsible Banking (PRB), a global framework that banks use to accelerate a sustainable economic transition, with their non-signatory counterparts within our coverage, as of June 10, 2025.⁵

PRB signatories, for example, paid one percentage point less, on average, for equity and debt capital than non-signatories over nearly a decade ending March 31, 2025, according to our analysis, which adjusts for differences in country, market capitalization and primary business lines.⁶

Difference in weighted average cost of capital

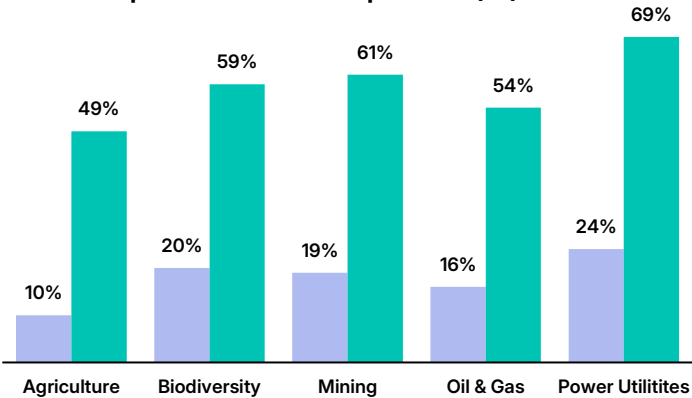


Source: MSCI ESG Research, based on propensity score matching of 143 PRB member and non-member institutions within MSCI's ESG Ratings coverage. Data covers the period August 31, 2015 to March 31, 2025.

The PRB signatories also conduct themselves differently when it comes to factoring environmental and social practices into lending and governance.

- **A higher share of PRB signatories have adopted sector-specific credit-risk policies for borrowers in emissions-intensive sectors** such as power utilities, oil and gas, and mining. Among PRB signatories we examined, 69% have specific policies for lending to utilities, 61% to mining and 54% for oil and gas.⁷ The share of non-signatories with targets for those sectors stood at 24%, 19% and 16%, respectively.

Sector-specific credit-risk policies (%)

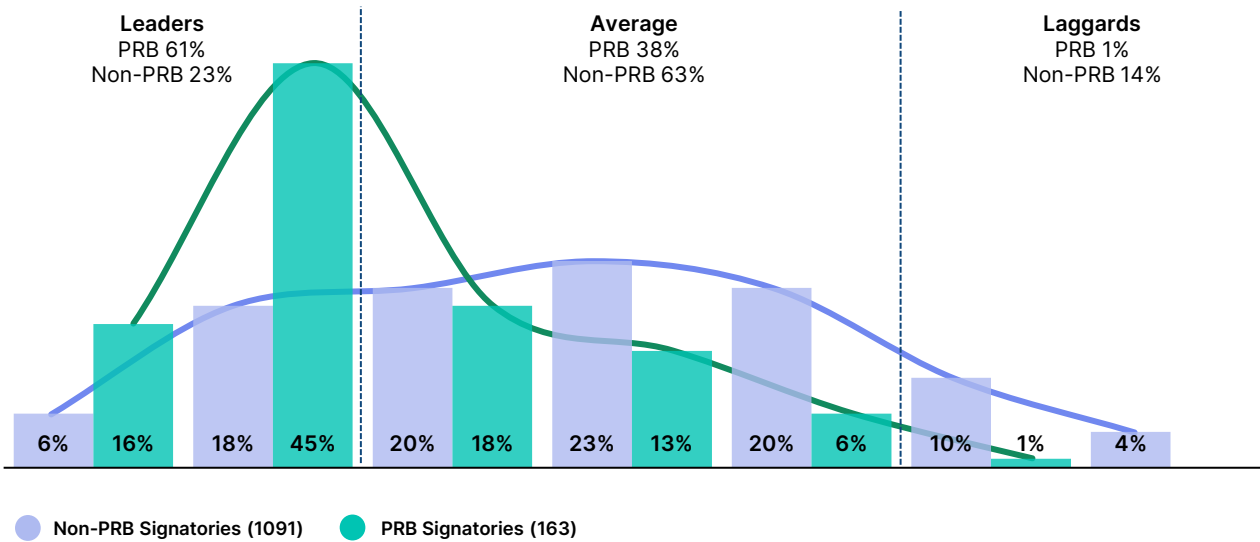


Company totals reflect average number of companies assessed across the relevant industries. Source: MSCI ESG Research, data as of July 9, 2025.

Do commitments matter?

- While PRB signatories and non-signatories lend to small and medium-sized enterprises (SMEs) in roughly similar proportions, **SME lending by PRB signatories grew nearly twice as fast** year-on-year as SME lending by non-signatories (8.8% versus 4.6%, on average), as of July 25, 2025.⁸
- Directors at 42% of PRB signatories are engaged or actively engaged with climate risk**, as measured by their involvement in climate-related risk management or strategy, compared with 14% of directors at non-signatories.⁹
- Two-thirds (66%) of PRB signatories link executive pay to sustainability performance**, compared with 42% of non-signatories.¹⁰
- The overwhelming share (90%) of PRB signatories offer sustainability-related financial products, compared with 44% of non-signatories.¹¹
- Sixty-one percent of PRB signatories lead their industry in managing financially material sustainability risks and opportunities, compared with 24% of non-signatories, based on their MSCI ESG Rating.¹²

MSCI ESG Ratings



Source: MSCI ESG Research, data as of July 9, 2025.

Two notes are in order. The PRB signatories covered by our analysis are typically larger than the non-signatory entities we examined, with a market value more than double the non-signatories. Second, the starting date for our analysis predates the PRB, which were established in 2019.

For both reasons, further analysis would be needed to **disentangle whether sustainability commitments tend to be**

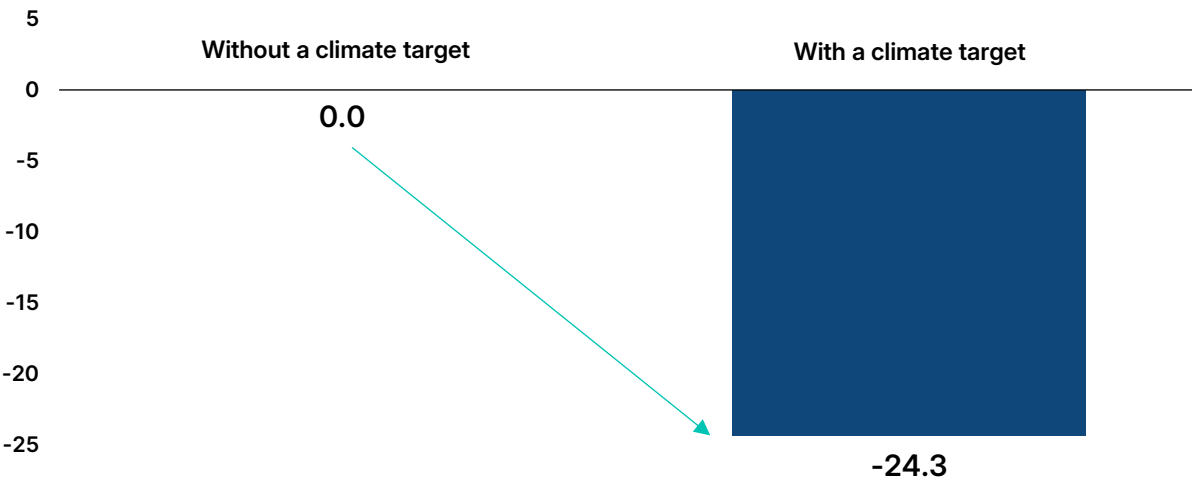
made by higher-quality companies in both financial and sustainability terms, or make companies more financially competitive and sustainability-focused. Nevertheless, being a signatory of the Principles for Responsible Banking provides a differentiating signal of a bank's financial and sustainability profile.

Emerging evidence across sectors

Similar to how sustainability factors intersect performance more broadly, the impact of making commitments is likely to differ by sector. Recent research by our colleague Xinxin Wang finds intriguing early evidence that bond markets demonstrate considerable nuance when valuing firms' decarbonization commitments and their ability to execute

against them. **Across all sectors over the three years ending March 31, 2025, firms with any climate target tend to enjoy lower borrowing costs on average than those without such targets.**¹³

Difference in average corporate borrowing costs (basis points)



Source: MSCI ESG Research, based on three years ending March 31, 2025. Analysis considers credit rating, duration liquidity and sector effects.

Where it gets more nuanced is **that borrowing costs differ based on how much companies are on track** against their own stated climate targets. For companies in emissions-intensive sectors such as energy and materials, those that are "all on track" toward their climate targets enjoy lower borrowing costs, while their sector counterparts that are only "partially on track" with such targets are penalized.¹⁴ This suggests that for high-emissions industries, markets may see a firm's progress against decarbonization targets as a sign of execution capability.

But the effects seem to be opposite for other sectors. Companies in low-emissions sectors that are on-track with their climate targets have seen higher borrowing costs, suggesting that lenders are factoring in the costs of decarbonization in the short term. As the paper stresses, "these conclusions are based on less than three years of data on climate-target tracking and should be interpreted as early signals."

Translating talk into action

Do commitments matter? Emerging evidence suggests they do, especially when aligned with an industry alliance or credible standard. Such commitments can differentiate companies from peers based on financial and sustainability characteristics, constituting credible signaling, not just cheap talk.

But how the talk translates into action and, in turn, into financial and sustainability outcomes, may well vary by sector and over time.

While stakeholders tend to scrutinize an individual institution at a snapshot in time, keeping score on commitments and meaningful progress may be more appropriate at a systems level. As Acharya, Engel and Wang show compellingly: “Even if these firms and investors are purely profit-maximizing, their commitments and actions as green innovators ... spur more innovation by other firms, which ultimately reduces their own cost of decarbonization.”¹⁵ In short, positive spillover is critical. Whether commitments matter in the long term ultimately depends on achieving that virtuous cycle of positive financial, technological and societal benefits.

References

1. “Limited accountability and awareness of corporate emissions target outcomes,” Xiaoyan Jiang, Shawn Kim and Shirley Lu, Nature Climate Change, Jan. 21, 2025.2. “An Empirical Examination of Business Climate Alliances: Effective and/or Harmful?,” Matteo Gasparini and Peter Tufano, Harvard Business School Working Paper, No. 25-060, May 6, 2025.
3. “Strategic Commitments to Decarbonize: The Role of Large Firms, Common Ownership, and Governments,” Viral V. Acharya, Robert F. Engle III and Olivier Wang, Working Paper 3335, National Bureau of Economic Research, January 2025.
4. For example: “Insights on MSCI ESG Ratings and Business Performance,” MSCI ESG Research, July 17, 2025, and “Which Sustainability Issues Mattered Most?,” MSCI ESG Research, Feb. 24, 2025. See also, “Foundations of ESG Investing – Part 1: How ESG Affects Equity Valuation, Risk and Performance,” Linda-Eling Lee, Laura Nishikawa, Guido Giese, Dimitras Melas and Zoltan Nagy,” The Journal of Portfolio Management, Vol. 45, Number 5, July 2019.
5. Signatories of the PRB include institutions for which banking is the primary activity and those for which banking may be one of several business lines. Hence our analysis compares PRB signatories within MSCI’s ESG Ratings coverage with non-signatory institutions within our coverage that engage in banking activities. The PRB comprises over 350 banks in more than 85 countries, representing about half of the global banking sector by assets.
6. To control for size and region bias, we used propensity score matching (PSM) to match PRB signatories with non-signatory institutions within MSCI’s ESG Ratings coverage. PSM enables us to compare PRB signatories and non-signatories with similar propensities that we estimated via logistic regression using market capitalization, country of domicile and sub-industry classification (based on main business activity) as predictors. We then match signatories and non-signatories using a nearest-neighbor algorithm (first nearest neighbor, based on Euclidean distance).
7. MSCI’s ESG Rating of banks typically reflects seven key issues: financing environmental impact, human capital development, consumer financial protection, privacy and data security, access to finance, corporate governance, and corporate behavior. See, “ESG Industry Materiality Map,” available at msci.com. We assess PRB signatories and non-signatories on key issues that tie to their main business activity. For sector-specific credit-risk risk policies, we compared 153 PRB signatories with 515 non-signatories that we assessed on the key issue financing environmental impact, as of July 9, 2025.
8. Based on a comparison of 150 PRB signatories with 660 non-signatories assessed for the key issue access to finance, as of July 25, 2025.
9. Based on a comparison of 158 PRB signatories with 525 non-signatories assessed for the key issue financing environmental impact, as of July 9, 2025.
10. Based on a comparison of 172 PRB signatories with 1091 non-signatories assessed for the key issue of pay as of July 9, 2025.
11. Based on a comparison of 158 PRB signatories with 525 non-signatories assessed for the key issue financing environmental impact, as of July 9, 2025.
12. Based on a comparison of MSCI ESG Rating for 163 PRB signatories with 1091 non-signatories, as of July 9, 2025.
13. The analysis controls for conventional risk factors for corporate bonds, such as credit quality, liquidity and duration, and absorbs sector effects through industry dummies. Firms with climate targets have 24.3 basis points (bps) lower residual option-adjusted spreads, on average across sectors, than firms without targets (statistically significant at 0.1%).
14. Each company’s target is monitored over time to identify whether the company remains “on track,” “partially on track” or “not on track.” This status is determined by comparing the firm’s reported (or estimated) emissions against a linear or milestone-based reduction trajectory. For details please refer to MSCI’s Climate Targets & Commitments Methodology.
15. See note 3.

About the authors



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Guilherme de Melo Silva is a member of MSCI’s sustainability and climate research and development team, focusing on the financial sector.

The authors thank the Institute’s Lauren Yeung for her contributions to this analysis.

About the Institute

The MSCI Sustainability Institute is on a mission to advance knowledge that tackles systemic challenges to create long-term value for global capital markets. We pursue our mission through interdisciplinary research, education and events that equip financial institutions, academic researchers, policymakers and NGOs with the insights they need to drive progress. For more information and to engage with us, visit msci-institute.com.