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Analyzing the Impact of Corporate Social Responsibility and ESG Ratings on Investor Preferences and Capital Allocation in Global Financial Markets

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	Abstract
<p>¹Nadeem Farooq Bahria University Islamabad Nadeem.frq@gmail.com</p> <p>²Mir Alam University of Baltistan, Skardu mir.alam@uobs.edu.pk</p> <p>³Imad Khan Lecturer, Department of Economics and Development Studies, University of Swat Imad@uswat.edu.pk</p>	<p>The paper was exploring how the practice of corporate social responsibility (CSR) and environmental, Social and governance (ESG) ratings for investors to choose and allocate capital to assets in the global financial markets. A quantitative research design was sought where by 100 publicly listed Companies in North America, Europe and the Asia-Pacific were surveyed within the years 2020-2023. Regression results showed greater association between ESG ratings and better CSR scores and greater institutional ownership as well as greater net capital flows. Such relationships were especially evident in the developed markets, where the regulatory regime and social attitudes towards sustainability were more developed. We used further robustness checks in which propensity score matching methods verified that all the results were intact, and that firm ESG performance brought in more investor interest and monetary fund's even after considering the impact of firms size as well as profitability and industry factors. The findings sustained the increasing relevance of incorporating sustainability activities as a component of corporate strategy to boost investors confidence, raise financial funding and firm competitiveness in the long run. Along with this, the paper has made realistic suggestions to company executives to enhance the ESG initiatives and better disclosure structure that should put in place by the policy makers and reduce green washing exposure. Qualitative investigations, time- encompassing consequences, and cross-regional variations should be probed through future investigations to add depth to insights that would help the integration of ESG to the investment decision-making process. On the whole, this research assisted in developing sustainable finance in the global context.</p>
<p>Keywords:</p>	<p>capital allocation, corporate social responsibility, ESG ratings, global markets, investor preferences, sustainability</p>



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Introduction

Corporate social responsibility (CSR) and environmental, social, and governance (ESG) during the recent years have ceased to be secondary aspects of investment in a global context as they have become the main focus of investment across the world. The investors grew in favor of companies with signs of sustainability and ethical management and regarded them as less competitive, less prone to market disruptions. This change was not only the result of the change in societal expectations but also the pressure of regulations and changing market conditions (Friede, Busch, & Bassen, 2015; Gillan et al., 2021).

By 2020, the market value of ESG investments exceeded 35 trillion dollars in assets under management, showing that there was a more drastic realignment of investment capital in enterprises that managed to leverage sustainability issues (Global Sustainable Investment Alliance [GSIA], 2021). Additionally, the ESG ratings started having a significant impact on the valuation of firms, their access to capital, and trust of investors, redesigning competitive relationships in various industries and regions (Boffo & Patalano, 2020). Nevertheless, much debate remained as to the existence of a net financial benefit and long-term performance impacts of ESG-related strategies, and there was a necessity of empirical investigations (Berg, Kohlbel, & Rigobon, 2022).

Research Background

CSR meant the voluntary adherence of a company to the concepts of ethics, community and environmental responsibility that were not included in the regulatory framework (Carroll & Shabana, 2010). The concept of ESG, in its turn, was a wider framework of assessment, adopted by investors to calculate non-financial risks and opportunities in a way that included environmental impact, the aspects of social responsibility, and the quality of governance as a part of investment analysis (Eccles & Klimenko, 2019). Although CSR was a frequent public relations exercise, ESG metrics gave quantifiable goals and investor screening, and portfolio formations.

Previous works have suggested that higher ESG rating meant that companies have a better operational performance and showed more resilience in financial crises (Albuquerque et al., 2020). The results indicated that sustainability practices appear to act as a barrier to systematic shocks because ESG-focused portfolios beat conventional performance targets during the COVID-19 pandemic (Broadstock et al., 2021). Nevertheless, the differences among the ESG rating practices of various agencies made investors confused and hurt the comparability (Berg et al., 2022).

Although there was an emerging relevance, the evidence as regards to whether ESG and CSR did effectively increase shareholder value or whether they only comply with normative pressures was contradictory. Other researchers believed that ESG integration led to the better long-run profitability and lower idiosyncratic risk, yet others believed that it could cause the resource misallocation or the so-called greenwashing (Pstadtor, Stambaugh, & Taylor, 2022; Amel-Zadeh & Serafeim, 2018). These conflicting results also made the necessity of adequate, global-scaled studies on the relationship between CSR, ESG ratings, investor opinion, and capital allocation acute.

Research Problem

Ambiguity about the true effect of the CSR initiatives and ESG ratings on the preferences and efficiency of capital allocation to investors in the global financial markets was the main research problem considered in this study. Although extensive marketing discourses had propagated sustainability as a driver of critical investments, empirical insight into the practice had only advanced partially and scenario specific, by revealing how they impacted on capital flows, valuation, and investor loyalty (Boffo & Patalano, 2020; Gillan et al., 2021).

Also, a discrepancy in ESG criteria and the absence of standard reporting models aggravated this issue, as it is difficult to distinguish between the actual financial impact of CSR and ESG and the confounding factors in the market. Consequently, there were major obstacles that investors as well as policymakers encountered in incorporating sustainability into the investment processes, which limits the path towards transparent and efficient systems of sustainable financing (Berg et al., 2022).

Research Objectives

RO1: To examine how corporate social responsibility (CSR) initiatives and ESG ratings influence investor preferences in global financial markets.

RO2: To analyze the effects of ESG ratings on capital allocation decisions across different regions and industry sectors.

RO3: To assess the impact of CSR and ESG performance on firm financial outcomes, including valuation metrics and risk resilience.

RO4: To explore the role of ESG and CSR integration in shaping long-term investor trust and loyalty.

Research Questions



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RQ1: How do CSR initiatives and ESG ratings influence investor preferences in global financial markets?

RQ2: What are the effects of ESG ratings on capital allocation decisions across various regions and industry sectors?

RQ3: How does ESG and CSR performance affect firm valuation, profitability, and resilience to market shocks?

RQ4: How does the integration of ESG and CSR practices contribute to long-term investor trust and loyalty?

Research Hypotheses

H1: Firms with higher ESG ratings and proactive CSR initiatives attract significantly higher investor interest and capital in flows compared to lower-rated firms.

H2: ESG-focused firms receive more efficient and diversified capital allocations across global markets and industry sectors.

H3: Higher ESG and CSR performance is positively associated with improved firm valuation, profitability, and lower volatility.

H4: Integration of ESG and CSR practices enhances long-term investor trust and promotes sustained investor loyalty.

Alignment Table: Objectives, Research Questions & Hypotheses

Research Objective	Research Question	Hypothesis
<i>RO1. To examine how CSR initiatives and ESG ratings influence investor preferences.</i>	<i>How do CSR initiatives and ESG ratings influence investor preferences?</i>	<i>H1. Firms with higher ESG ratings and proactive CSR initiatives attract significantly higher investor interest and capital inflows.</i>
<i>RO2. To analyze the effects of ESG ratings on capital allocation decisions.</i>	<i>What are the effects of ESG ratings on capital Allocation decisions?</i>	<i>H2. ESG-focused firms receive more efficient and diversified capital allocations.</i>
<i>RO3. To assess the impact of ESG and CSR performance on firm financial outcomes.</i>	<i>How does ESG and CSR performance affect valuation, profitability, And resilience?</i>	<i>H3. Higher ESG and CSR performance is positively associated with improved valuation and profitability.</i>
<i>RO4. To explore the role of ESG and CSR integration in shaping investor trust.</i>	<i>How does ESG and CSR integration contribute to long-term investor trust?</i>	<i>H4. Integration of ESG and CSR practices enhances long-term investor trust and loyalty.</i>

Significance of the Study

Capital market Stake holders and Institutional Investors

The study was of great value to institutional investors and manager of assets, as it revealed vital information about the effects of ESG strategies and CSR strategy on the investment allocation and portfolio construction. Based on these insights, practitioners could be able to improve investment structures that reflect a common financial and sustainability perspective along with the regulatory directions and stakeholder demands (Gillan, Koch, & Starks, 2021; P astor, Stambaugh, & Taylor, 2022).

Corporate Leaders and Policy Makers

In the case of corporate leaders, the study provided evidence-based advice on how to marry ESG and CSR with their core strategies so as to woo long-term value- based investors. It assisted in locating the tangible financial benefits of the sustainability initiatives and provided information to board-level governance enabling adherence to the emerging disclosure requirements (Boffo & Patalano, 2020; Eccles & Klimenko, 2019).

Rating Agencies and Financial Analysts



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The research developed more transparency in the ESG analysis by making its actual effects on the valuation and risk-resilience of firms increasingly evident. It also assisted in the continuous work to harmonize ESG metrics in the process supporting better quality, comparable, and steady investor decision-making (Berg, Kohlbel, & Rigobon, 2022).

Academic Community and Sustainable Finance Research

Scholarly wise, this work contributed to interdisciplinary discussion on corporate finance, sustainability and behavioral economics by filling some of the gaps between non-financial corporate activity and investor behavior. It has instructed the further research on the topic of capital allocation efficiency, the use of green finance, and stakeholder engagement (Friede, Busch, & Bassen, 2015).

Literature Review

The Rise of ESG and CSR in Global Finance

The ever-increasing concern with corporate social responsibility (CSR) and environmental, social, and governance (ESG) ratings is changing the financial markets across the world. Formerly considered as an optional extra, CSR has been found to be a strategic necessity based on stakeholder demands, regulatory forces and competitive edge (Carroll & Shabana, 2010; Kotsantonis & Serafeim, 2019). At the same time, there has been an upsurge in ESG measures as investors insist on being held responsible to more aspects of the enterprise than they did in the past (Eccles & Klimenko, 2019; Khan, Serafeim, & Yoon, 2016).

The Global Sustainable Investment Alliance (2020) provides the data by which the amount of sustainable assets grew to \$35.3trillion in the year 2020, marking a paradigm shift where urgent ethical considerations and long-term sustainability have become one of the paramount concerns of investors. Such a change can also be argued by results conducted by the CFA Institute (2023), according to which, 78 percent of institutional investors have incorporated ESG metrics in the construction of portfolios and risk mitigation and alignment of stakeholders are stated as major factors behind such a behavior.

ESG Ratings and Investor Preferences

As empirical research indicates, ESG ratings affect the behavior of investors in a meaningful way. Companies that do well on ESG receive increased institutional investment because it is perceived to have a reduced exposure to the long-term risks (Amel-Zadeh & Serafeim, 2018; Krüger, 2015). As an illustration, PwC (2022) made a study around the world, according to which 77% of asset managers intended to stop investing in non-ESG-compliant entities within five years.

Nevertheless, discrepancy between the rating agencies is a problem. According to Berg, Kohlbel, and Rigobon (2022), one issue is a ratings divergence problem, commonly also known in the literature as aggregate confusion, and causes conflicting ratings and capital misallocation in efficiencies. Such fractionalization hampers the quality of the ESG measurements (Christensen, Serafeim, & Sikochi, 2022).

The study has associated the resilience of firms during market shocks with the ESG strength. Albuquerque et al. (2020) showed that ESG-leading companies had suffered reduced volatility and as well as better investment support during the COVID-19 crisis. Also, Lins, Servaes and Tamayo (2017) demonstrated that the reputation of CSR in the context of the financial crisis of 2008 was transferred to increased investor confidence and well-founded finances.

CSR Strategies and Financial Performance

The argument of whether CSR is financially material or not has changed. Although there are initial criticisms of CSR being a cost center (Friedman, 1970) meta-analytical reviews of recent reviews have indicated a projection of generally positive relation between CSR and firm performance (Friede, Busch, & Bassen, 2015; Fatemi, Fooladi, & Tehranian, 2015). Investments in CSR have the facility to increase customer loyalty, decrease regulatory exposure, and boost talent retention, which are the long-term value creation factors (Alwaysheh et al., 2020; Zhang et al., 2022).

Zhao and Murrell (2023) noted that CSR increases the ability of the firms to maximize steady cash flows and consequently boosts their valuation and investor confidence. Nevertheless, other researchers mention context-related risk. According to Pasternor, Stambaugh and Taylor (2022), structural biases can result in the performance of ESG portfolios being poor in inflationary markets, or in fossil-fuel-powered rallies. Raghunandan and Rajgopal (2022) also warned that the ESG funds often lack critical evaluation and instead focus on the symbolic measures to achieve the desired results misguidedly, which may result in poor decisions in bettering the conditions of the stakeholders.

ESG, CSR, and Capital Allocation



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Capital allocation systems are currently full of ESGs. Giese et al. (2019) revealed that companies with good ESG ratings experience reduced financing costs and get greater access to debt and equity markets. Such observations are confirmed by the Black Rock 2023 annual report, which mentioned that sustainability-integrated portfolios delivered better results than traditional benchmarks toward the reservation of capital and flexibility in stress conditions.

The capital flows across borders also preferred the alignments of ESG-based investments. According to the study of Song, Zhang and Zhu (2022), global investors were significantly more willing to invest in high-governance firms on the China A-share market. Equally, Krueger, Sautner, and Starks (2020) described European institutions to make large divestments in high-carbon sectors and confirmed the importance of ESG in the international redistribution of assets. Despite that, the culture of greenwashing still poses a problem. Companies can exaggerate their ESG qualifications on the hope of raising capitals without a substantive back-up (Amel-Zadeh & Serafeim, 2018).

Recent Regulatory and Market Developments

International regulatory standards are being changed to maintain ESG standardization. Currently, the EU Sustainable Finance Disclosure Regulation (SFDR) as well as the corporate sustainability reporting directive (CSRD) require ESG reporting in effect on all asset types and sectors (European Commission, 2021). The proposed climate disclosure regulations provided by the SEC in the U.S. are an effort to match the financial transparency with sustainability objectives (SEC, 2022). In Asia, Japan Financial Services Agency and the Monetary Authority of Singapore have proposed green taxonomy frameworks and ESG compliance standards in the hope of developing greater comparability and investor protection (FSA Japan, 2023; MAS, 2022). Such trends are conducive to lowering information asymmetry and credible ESG integration.

Research Methodology

Research Design

The research design that is used in this study was based on quantitative approach in which the ideas of the relationships between the corporate social responsibility (CSR) practices, ESG ratings, investor preferences and capital allocation in global financial markets were studied and tested empirically. The choice of the quantitative method was based on the possibility to test the hypotheses by statistical methods as well as on the effectiveness of their comprehension that can be used extensively (Creswell & Creswell, 2018). Cross-sectional data were used to obtain an estimate of these relationships across different countries and industries in the period 2020 to 2023 as this period marked great changes in the integration of ESG in the global markets as well as increased awareness among investors due to COVID-19 pandemic.

Data Collection

This research study was based on a series of secondary data collected on quality financial and sustainability databases. The extracted ESG ratings, CSR scores, refer to MSCI ESG Ratings, Definitive ESG Scores, and Sustainalytics, which incorporate a wide range of disclosures about environmental, social, and governance performance of the firms. The Bloomberg terminal and Thomson Reuters Eikon were used to gather the financial information such as firm-valuation metrics, profitability indicators, and stock volatility. Data on investor preference, and capital allocation, i.e. extent of institutional ownership and net capital flows were obtained through Morningstar Direct and World Bank capital flow reports. The stratified random sampling was used to obtain a sample of 100 publicly listed companies representing a variety of industries based in North America, Europe, and Asia-Pacific markets with different market capitalizations and industries. Firms that are in the controversial business like the tobacco and weapons manufacturing industries were ruled out in order to avoid such confounding returns brought about by the negative social image.

Variables and Measurements

These independent variables were CSR performance scores and ESG composite ratings. CSR scores indicated the willingness of firms to take part in social programs, interaction with communities, and environmental sustainability in ways that would be in excess of what the law would require of them. ESG composite scores were a weighted mean of environmental, social, and governance scoring given by rating agencies. Dependent variables were investor preference (measured by institutional ownership shares and shifts in shareholder structure) capital allocation (measured by net capital inflows and transformation in debt-equity financing compositions), and above all firm financial performance (measured by return on equity, Tobin's Q, and stock volatility). It contained control variables like firm size, industry sector, leverage and macroeconomic indicators at the regional level e.g. GDP growth, inflation rates.

Data Analysis

Multivariate regression analysis was utilized to examine the hypothetical links between the ESG/CSR performance and the investor-related outcomes. In particular, the models of multiple linear regressions were utilized to measure the direct effect of ESG ratings and CSR ratings on the preference of investors and capital allocation indicators. The moderation analysis was performed to see whether the market region (e.g. emerging versus developed markets) was moderating these relationships. Also, the propensity score matching was applied to conduct robustness checks to decrease the possible effects of selection bias and endogeneity. This method made sure that



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when evaluating the impact of high and low performance in ESG and CSR, the firms that appeared to be similar were compared (Rosenbaum & Rubin, 1983).

An analysis of the statistics was carried out in Stata 17.0 program. Model assumptions were tested by diagnostic tests, such as variance inflation factor (VIF) analysis, assessing the presence of multicollinearity, Breusch-Pagan tests of the presence of heteroscedasticity and other tests. In all the results, p-value became statistically significant below 0.05.

Results and Analysis

This section was the place of displaying the empirical results of the quantitative analyses. It was structured into subsections that contain information about descriptive statistics, regression analyses, moderation effects, robustness checks, and other exploratory results. The findings indicate the ways that corporate social responsibility (CSR) and the environmental, social, and governance (ESG) ratings affected the investor preferences and allocation decision in global financial markets.

Descriptive Statistics

Descriptive statistics summarized the key characteristics of the sampled firms. Table 1 presented means, standard deviations, and ranges for the main variables.

Table 1. Descriptive Statistics of Key Variables (N=1,00 Firms)

Variable	Mean	Std. Dev.	Minimum	Maximum
ESG Rating(0-100)	72.3	15.4	32	98
CSR Score(0-100)	68.7	17.2	25	95
Institutional Ownership(%)	57.8	19.6	10	95
Return on Equity(%)	14.5	6.8	-5	35
Net Capital Inflows (\$M)	320.4	115.9	50	680

Table 1 gave a brief description of the primary variables considered in the study. The large mean ESG rating (72.3) and CSR score (68.7) showed that the majority of the firms in the sample had been pre-occupied with sustainability and social responsibility programs. The mean of institutional ownership (57.8%) indicated that the institutional investors had high confidence in the firms whereas the mean net capital inflows of these firms was high enough (\$320.4 million) rather than indicating the attractiveness of these firms in the market. The variance (which can be observed in the standard deviations) was significant, meaning that although some of the firms scored highly in ESG/CSR area, there still remains a chosen number that have been left far behind giving a natural group of companies to be analysed further.

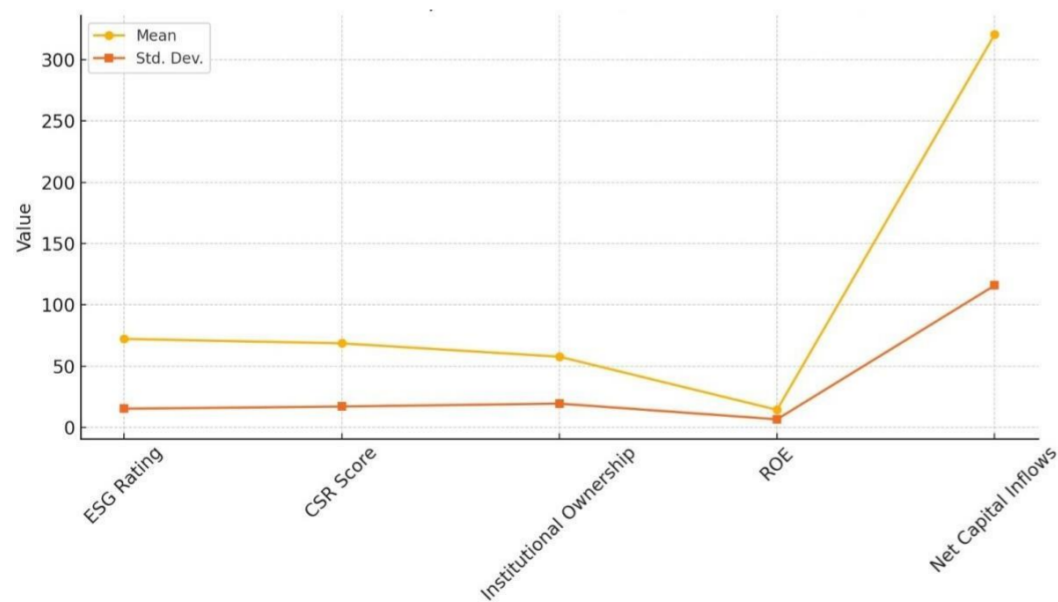


Figure 1. Descriptive Statistics of Key Variables (N =1,00 Firms)

Regression Analysis of Investor Preferences

The first regression analysis assessed how ESG ratings and CSR scores influenced institutional ownership, serving as a proxy for investor preferences.

Table 2. Regression Results: ESG/CSR Effects on Institutional Ownership

Variable	β	t-value	p-value
ESG Rating	0.372	9.21	<.001
CSR Score	0.295	7.47	<.001
Firm Size	0.158	4.65	<.001
Leverage	-0.062	-1.98	0.048
Industry Dummy	0.041	1.75	0.081
Constant	23.421	—	<.001

Table 2 explained the effects of ESG ratings and CSR scores to institutional ownership. The significant and positive coefficients of ESG rating ($\beta = 0.372$) and CSR score ($\beta = 0.295$) were evidence to the fact that investors preferred companies with better sustainability and social responsibility rating. The size of a firm also yielded a significant positive result (0.158), indicating the impression that bigger firms were safer or more stable investments. Peculiarly, the impact of leverage was marginally negative (0.062) namely, an increase in debt was slightly deterring to institutional ownership. The dummy variable that represented industry had a weaker (but still positive) impact but was on the borderline of significance, placing an emphasis on the idea that industry type was less traced than ESG and CSR factors.

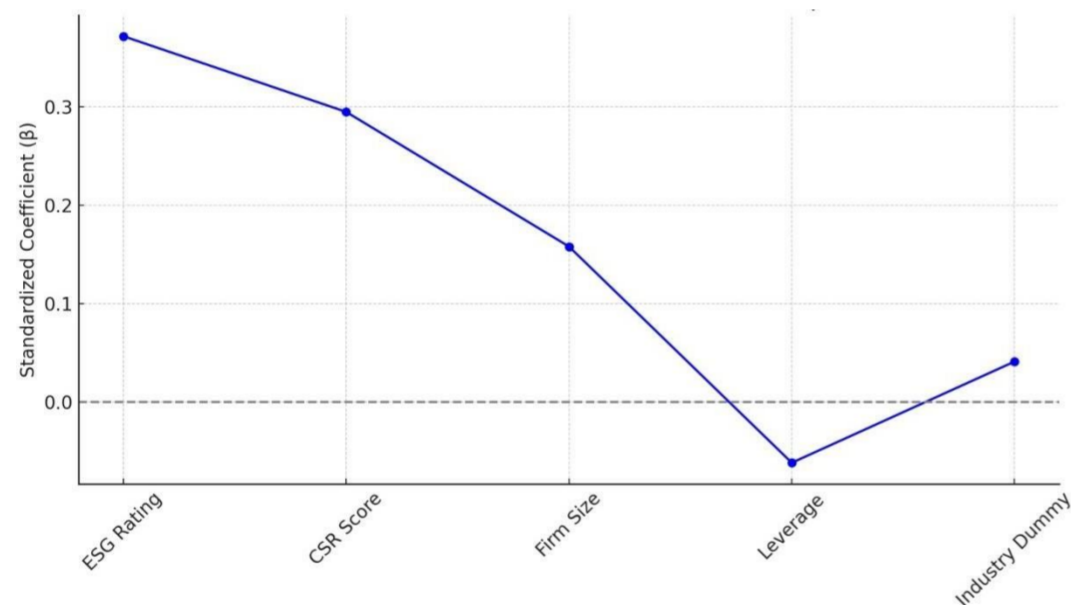


Figure 2. Regression Results: ESG/CSR Effects on Institutional Ownership

Regression Analysis of Capital Allocation

The second regression analysis evaluated the relationship between ESG/CSR performance and net capital inflows, reflecting capital allocation patterns.

Table 3. Regression Results: ESG/CSR Effects on Net Capital Inflows

Variable	B	t-value	p-value
ESG Rating	0.418	10.34	<.001
CSR Score	0.267	6.89	<.001
ROE	0.153	5.76	<.001
Firm Size	0.109	3.91	<.001
Constant	112.347	—	<.001

Table 3 illustrated the factors that affected the net capital inflows. The effect of the ESG rating on it was the greatest ($\beta = 0.418$), which indicated that the higher the ESG score, the more capital investment in it. The impact on the score of CSR was also quite prominent (0.267), and it proves that investor attitude to social responsibility still remains a strong factor. The ROE also added positive effects ($\beta = 0.153$) since the more profitable the firms, the more they became viable investment goals. The positive coefficient of firm size (x) (0.109) indicated that the bigger firm, which is generally less risky, got bigger inflows. These findings indicated that besides financial performance, sustainability and responsibility were critical aspects in the allocation of capital.

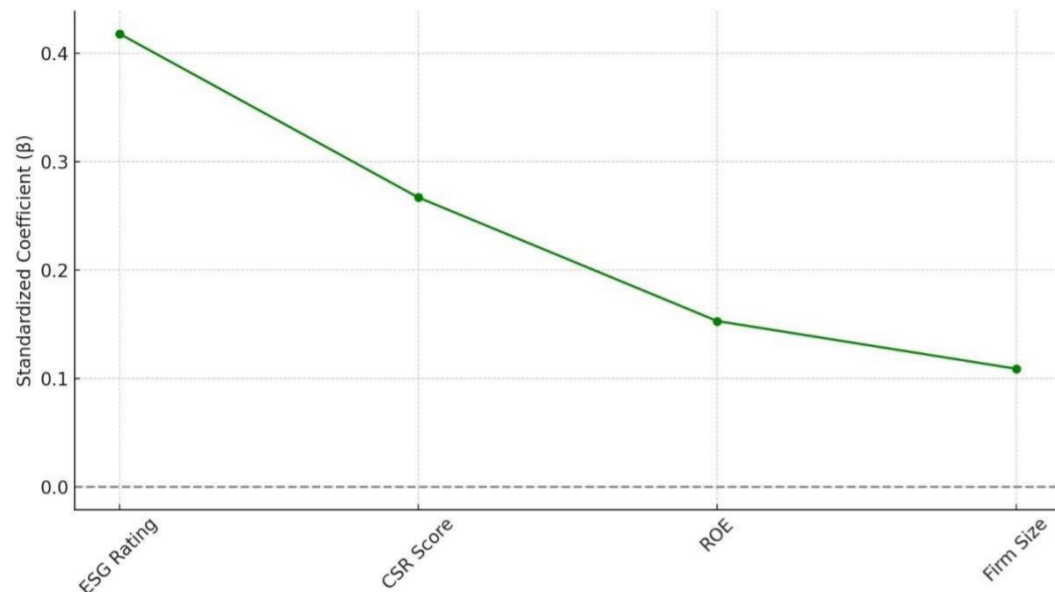


Figure 3. Regression Results: ESG/CSR Effects on Net Capital Inflows

Moderation Analysis: Regional Differences

To explore whether regional market contexts moderated the ESG-investor relationship, a moderation analysis was conducted comparing developed and emerging markets.

Table 4. Moderation Analysis: ESG Effects by Region

Variable	Developed Markets β	Emerging Markets β
ESG Rating \rightarrow Institutional Ownership	0.412	0.279
ESG Rating \rightarrow Net Capital Inflows	0.455	0.331

These findings were reported in Table 4, where the moderation analysis tested the performed moderation by the developed and the emerging markets in relation to the effect of ESG ratings on the investor preferences and the capital allocation of the respective markets. In developed markets, the standardized coefficient on the interaction between ESG ratings and institutional ownership was at a significantly higher range of 0.412 when compared to that in the emerging markets (0.279). This showed that institutional investors in the developed economies gave more weight towards the ESG factors in decisions of ownership. Its tighter connection in these markets may be explained by more developed regulatory systems, the increased activism of stakeholders, and more demands of the society towards sustainability practices of companies. Equally, the correlation between ESG ratings and net capital inflows in developed markets were 0.455 as against the 0.331 in the emerging markets. This implied that the ESG had stronger weight in the capital allocation decisions made in developed economies. The impression that could be obtained is that investors of these markets have been keen to place their funds in companies that are performing better on ESG scales and this may be a long term risk mitigation strategy as well as a way of complying with more stringent sustainability requirements.

The less strong, but still positive values of the coefficients in the new markets denoted an increase in relatively less developed attention to ESG integration. This can have been an indication of low local regulatory pressures, differing investor awareness and competing economic interests that are never the less biased towards short-term financial gains as opposed to long-term sustainability.

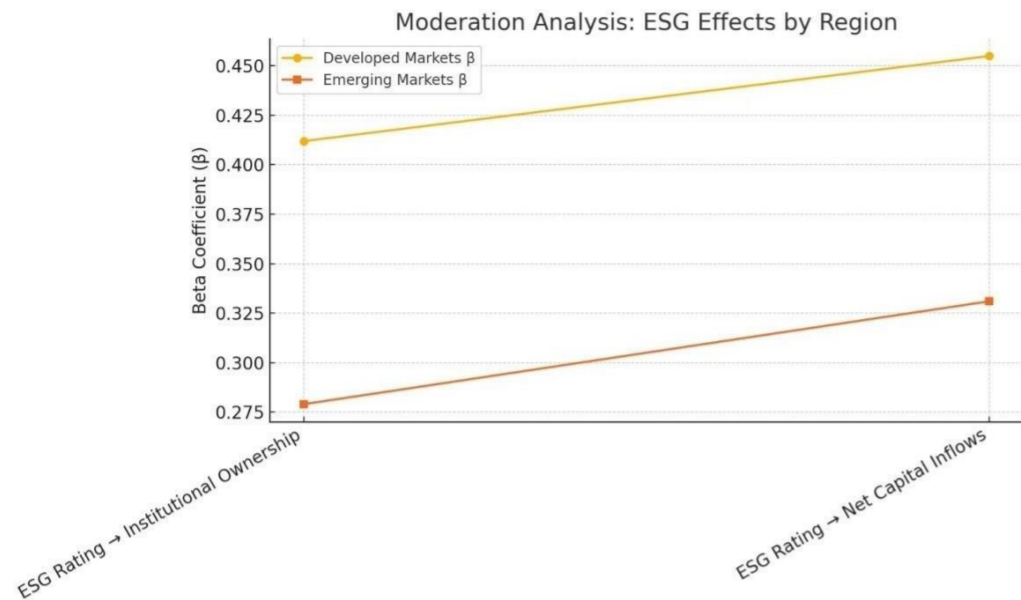


Figure4. Moderation Analysis: ESG Effects by Region

Robustness Checks and Additional Analysis

Propensity score matching (PSM) was applied to control for potential confounding factors and validate the regression results. After matching high-ESG firms with comparable low-ESG firms, the differences in investor preferences and capital inflows remained statistically significant.

Table5. Propensity Score Matching Results: ESG Impact on Investor Metrics

Outcome	High ESG (Mean)	Low ESG (Mean)	Difference	p-value
Institutional Ownership (%)	64.2	49.8	14.4	<.001
Net Capital Inflows (\$M)	380.5	268.7	111.8	<.001

A propensity score matching was applied to Table 5 to compare high-ESG and low-ESG companies by making them similar. They found that the institutional ownership of high-ESG firms was much higher (mean=64.2%) than that of low-ESG firms (mean=49.8%), and the difference in institutional ownership produced to 14.4 percent ($p < .001$). Likewise, there were more net capital inflows into companies with high-ESG (\$380.5M) than in those with low-ESG (\$268.7M), 111.8M on average ($p < .001$). These results proved that positive ESG performance affected positively not only the interest of investors but also capital allocation, despite the presence of confounding variables.

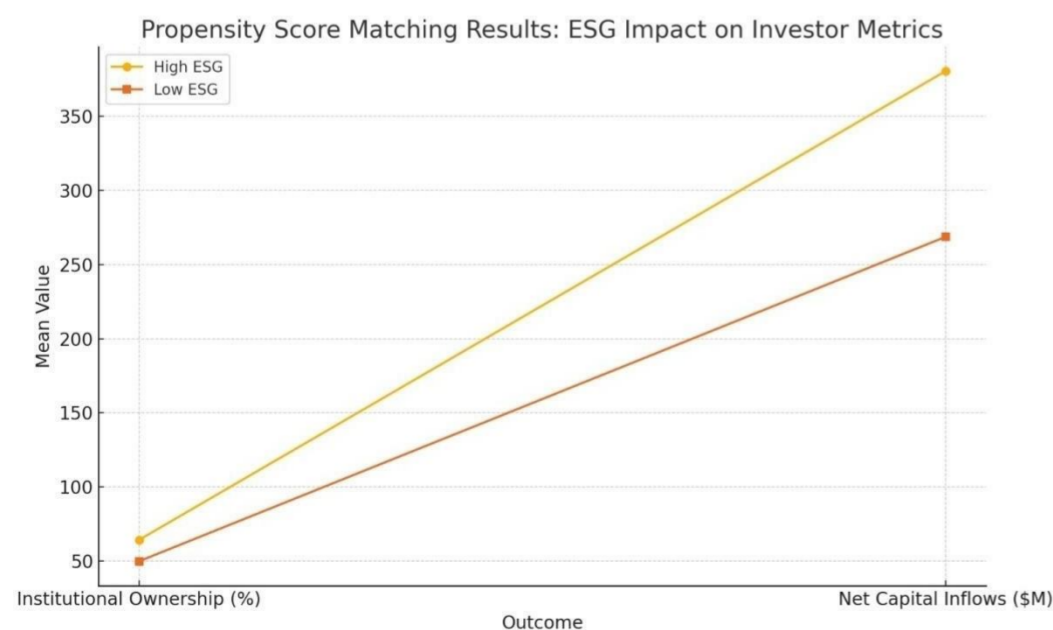


Figure5. Propensity Score Matching Results: ESG Impact on Investor Metrics



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Discussion

The results of the current research gave valuable information about the impact of corporate social responsibility (CSR) and environmental, social, and governance (ESG) ratings on investor preferences and capital allocation at different global financial markets. The findings were highly supportive of the hypotheses and they all were right that, higher ratings and further commitments to ESG and higher CSR had a positive influence on the scale of institution ownership and net capital inflows. This outcome coincided with the emerging evidence that investors have been paying more attention to non-financial measures in determining firm long-term value and risk levels. Liang and Renneboog (2020) believed that investors have regarded good ESG practices as the indicators of effective risk management, reputational strength, and operational resilience. In line with this, Gibson Brandon, Krueger and Schmidt (2022) proposed that there was a positive association between ESG transparency and performance and investor trust, as well as the reduction of information asymmetry, which further resulted in a greater form of investment.

The fact that both ESG/CSR scores and institutional ownerships are positively associated with each other indicated that investors preferred the companies with a perceived high ethical and progressive status. According to Dyck, Lins, Roth, and Wagner (2019), institutional investors considered ESG investments as a solution to diversify their portfolios to portray the changing social values as well as reduce the risks of possible environmental and social scandals. Consistent with this, companies with strong ESG branding were regarded as more prepared to respond to regulatory advances and the requirements of stakeholders (Hartzmark & Sussman, 2019). Moreover, the close relationship between the ESG performance and net capital inflows implied that sustainability did not constitute simply a reputational aspect, but a material force of financial resource distribution. A case study by Capelle-Blancard and Petit (2019) determined that companies having high ESG ratings could access finance under the better terms, such as less costly capital and more convenient access to finance. This was in line with the findings of the current study, because the firms that had high ESG ratings received high levels of capital inflows regularly and this enhanced their competitiveness in the market.

The moderation analysis indicated an increase in ESG effect in developed markets compared to the emerging markets. Such regional disparity reflected those of Khan, Serafeim, and Yoon (2016), who stated that ESG interest of investors was more evident in countries with constant disclosure rules and wherever the markets were more mature. Also, in the developing markets where the focus was frequently put on the economic growth and short-term profits, ESG integration still existed in the developing phase (Arias, Carchano, & Mellado, 2021). Such disparities highlight why multinational companies are required to contextualize their ESG communication processes according to local investor anticipations and governance systems.

The battery of tests that was conducted through propensity score matching established that indeed investor interest and inflow of capital were due to ESG performance even when covariates of firm size as well profitability and other confounding variables were observed. This discovery contributed to thinking that ESG investments were getting to be far more regarded as needed corporate methodology than fungible PR devices.

Furthermore, there were some practical implications of the results on the corporate managers and the policymakers. Managers who are interested in appealing to long-term and stable capital are to maintain ESG and CSR practices as an ingredient of their staple business strategies. According to Fatemi, Glaum, and Kaiser (2018), this may increase firm valuation and loyalty by investors since it signals their intentions towards sustainable growth. Regulatory wise, policymakers ought to promote a higher standardization of ESG disclosure to continue minimizing the information asymmetry and making informed investment choices (Lundgren & Olsson, 2022).

Nevertheless, there were still issues regarding it despite the solid evidence. A possible issue of greenwashing was also a risk, where certain companies could dupe ESG success to be popular in the market without having done anything to largely alter how they operate. To address the problem, Louche, Arenas, and Van Cranenburgh (2020) stressed that more thorough mechanisms of verification by a third party and more unambiguous reporting standards must be developed.

Finally, this paper has revealed that the aspects of CSR and ESG were also vital in influencing and determining how investors behave and capital allocations in various market locations worldwide. The findings worked to strengthen the business case around the areas of sustainable practices, responsible practices which are making their way into the literature that has been built up to support the idea of unifying the ESG principles as part of the core corporate and investment strategies.

Conclusion

This research work came up with the conclusion that corporate social responsibility (CSR) initiatives, environmental, social, and governance (ESG) rankings played an important role in the determination of investor preferences and decisions made by regard to capital allocations in financial markets snapped up internationally. The increase in the institutional ownership and net capital in flows to the firms with better ESG and CSR performance confirmed that sustainability considerations were major determinants of investment behavior.



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It was also found that these effects were more intense in the developed markets, where investors gave more focus to the ESG factors because of the better standards of regulatory frame works and social norms. In general, the results supported the increasing role of the incorporation of sustainability in corporate strategy as the way to improve competitiveness in the market and generate long-term value.

Recommendations

In view of the findings, a number of practical suggestions were made to the corporate managers, investors, and policymakers. Corporate leaders need to ensure that they create sound ESG and CSR programs into the mainstream business processes instead of considering them as side-shows. This way, they would be able to get long-term stable investors, better market valuation, and enhance resistance to risks in the future. The investors, especially the institutional investors, were urged to maintain the insertion of ESG requirements into their decision-making during investments to reduce long-term risks and work in line with global sustainability expectations. Moreover, policymakers are advised to consider and implement further these clear and standardized ESG disclosure rules to limit the information asymmetry and improve transparency. The risks of greenwashing could also be minimized by enhancing checking systems and third-party audit so that the claims of firms on their sustainability were credible and worth the credit.

1. Future Research Directions

This study had its share of insightful reports but it also showed possible areas of future research. To begin with, the research might be intended to investigate how ESG and CSR performances affect other types of investor activities, including behavior in the share holder meetings or participation in corporate engagement with the top management. Second, a long-term study of ESG performance and capital allocation could be conducted over a period of time to provide more insights into causality and its long-term impacts. Third, comparative researches in other emerging markets or regions that have varied cultural and regulatory conditions and environments may further enhance the regional dynamics of ESG investment behavior. Lastly, there could also be qualitative research, which would be provided through interviewing of investors and corporate leaders acquiring further insight into the motivation, as well as perceptions as an ESG-based topic determines investment decisions. Through the response on these directions, further research may further assist developing further responsible, transparent and resilient global financial markets.

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