How Do ESG Performance and Awareness Affect Firm Value and Corporate Overinvestment?[†]

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May 9, 2022

Abstract

Examining the relationship between environmental, social, and governance (ESG) performance and firm value has attracted significant attention, as ESG investing has grown rapidly over the last decade. This study examines this issue by investigating how ESG awareness and performance influence firm value, as proxied by Tobin's Q. The results indicate that as global ESG awareness measured by the number of signatories of United Nations Principles for Responsible Investment (PRI) increases, firms with higher ESG performance are valued higher. Concerning firm investment, our results suggest that firms with better ESG performance have larger investment opportunities through higher Tobin's Q. Given these results, this study also investigates whether firms with higher ESG performance have a higher tendency to overinvest. The overall results find little evidence that ESG performance induces the firms' overinvestment behaviour for most of the sectors. Moreover, the results indicate that, as ESG awareness increases, the firms with higher ESG performance tend to overinvest less for some sectors.

Keywords: Environmental, Social, Governance, Controversies, Tobin's Q, Overinvestment

JEL Codes: D25, G30, G32

[†] A part of this study is a result of the research project at Research Institute of Economy, Trade and Industry (RIETI) by the second author. The authors would like to thank the seminar participants at RIETI for their valuable comments. The second author would also like to thank the financial assistance provided by the Japan Center for Economic Research.

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Sustainability and credit spreads in Japan*

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April 30, 2022

Abstract

Does the market value the environmental, social, and governance (ESG) performance of firms in corporate bond credit spreads? In this study, we construct the firm-level corporate bond credit spread based on the 'bottom-up' approach and examine the relationship between corporate ESG performance and credit spreads. Our results indicate that the ESG performance significantly decreases the credit spreads and the effects of ESG performance increase with the recognition of the importance of ESG investing regardless of the pillar. Furthermore, our analysis suggests differential trends across the issuing firms' credit quality. Specifically, the ESG performance has a much higher impact on the credit spreads for lowly-rated firms, implying that the information on higher ESG scores could be a stronger signal for higher sustainability for those firms that are considered to have higher default risk from the financial information. Within the E, S, and G pillars, the resource use category, human rights category, and management category respectively show the most prominent annual lowering effects.

JEL classification: G12, M14, Q56

Keywords: Corporate bond spread, ESG investing, Sustainability

*The authors would like to thank to Doo Bong Han, Naoshi Ikeda, the participants at the 2021 Nippon Finance Association Meeting, the seminar participants at GPIF and RIETI, and the workshop at Seikei University for their helpful comments. A part of this study is a result of the research project at the Research Institute of Economy, Trade and Industry (RIETI) by the first author. The first author would like to acknowledge the financial assistance provided by the Japan Center for Economic Research. This research was funded in part by the Center for Asian and Pacific Studies, Seikei University.

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