Benefit of Environmental, Social and Governance (ESG) investment

Abstract

This study investigates the financial, social, and environmental benefits of ESG investing. According to the results, the respondents generally had favorable attitudes toward benefits of ESG investing. Male respondents were more likely to have favorable attitudes toward benefits of ESG investing. The respondents highlighted social benefits as the most important benefit of ESG investing, followed by environmental benefits, long-term value creation, and corporate reputation enhancement, in that order. Male students were most likely to identify social benefits as the most important benefit of ESG investing, followed by environmental benefits, long-term value creation, and corporate reputation enhancement, in that order. Female students were most likely to identify social benefits as the most important benefit of ESG investing, followed by corporate reputation enhancement. Environmental benefits and long-term value creation then followed equally.

Keywords: ESG investing, College students, Social benefits, Corporate reputation enhancement, Environmental benefits, Long-term value creation

I. Introduction

Environmental, Social and Governance (ESG) investing has gained increasing popularity in recent years as investors recognize the importance of not only achieving financial returns but also promoting sustainable and responsible business practices. While some critics argue that prioritizing ESG factors can come at a cost to financial returns, a growing body of research suggests that ESG investing can actually offer financial benefits to investors. This study investigates the financial, social, and environmental benefits of ESG investing.

II. Theoretical Framework

One key financial benefit of ESG investing is the potential for reduced risk. Companies that prioritize ESG factors tend to have a better understanding of their long-term risks and opportunities, which allows them to make more informed investment decisions and ultimately perform better financially. For example, companies that prioritize environmental factors may be less vulnerable to environmental disasters or regulatory penalties, while companies that prioritize social factors may be less vulnerable to reputation damage from unethical practices.

In a study published in the Journal of Sustainable Finance & Investment, Friede, Busch, and Bassen (2015) analyzed over 2,000 empirical studies on the relationship between ESG factors and financial performance. They found that companies with strong ESG practices tend to have lower costs of capital and lower volatility, indicating that ESG investing can lead to reduced risk for investors.

Another financial benefit of ESG investing is the potential for increased returns. Companies that prioritize ESG factors may have a competitive advantage in the long run, as they are better positioned to adapt to changing market conditions and consumer preferences. Additionally, companies that prioritize ESG factors may have stronger relationships with stakeholders, including customers, employees, and suppliers, which can lead to increased loyalty and trust.

In a study published in Management Science, Cheng, Ioannou, and Serafeim (2014) analyzed the financial performance of a sample of U.S. companies that had been recognized for their sustainability practices by various organizations. They found that these companies outperformed their peers in terms of both accounting and stock market performance, indicating that ESG investing can lead to increased returns for investors.

Furthermore, a study published in the Journal of Business Ethics by Grewal, Mohan, and Serafeim (2021) found that companies that prioritize ESG factors tend to have higher financial returns in the long run, particularly in industries with high environmental and social risks. The authors suggest that this may be because ESG practices help companies manage these risks and ultimately perform better financially.

In addition to reduced risk and increased returns, ESG investing can also offer benefits in terms of long-term value creation. Companies that prioritize ESG factors tend to have a focus on sustainable business practices and ethical governance, which can lead to a stronger reputation and increased customer loyalty.

In a study published in the Journal of Business Ethics, Khan, Serafeim, and Yoon (2016) analyzed the materiality of ESG factors for a sample of global companies. They found that ESG factors are material to financial performance and can have a significant impact on long-term value creation for companies and investors alike.

Overall, these studies provide robust evidence that ESG investing can offer financial benefits to investors. By targeting companies that prioritize ESG factors, investors can potentially achieve better financial returns while also supporting sustainable business practices, ethical governance, and social responsibility.

However, it is important to note that there are limitations to these studies. For example, there may be other factors that drive financial performance beyond ESG factors, such as macroeconomic conditions or industry-specific factors. Additionally, there may be challenges in accurately measuring and comparing ESG practices across companies and industries.

Despite these limitations, the evidence strongly suggests that ESG investing can offer financial benefits to investors. By prioritizing sustainable and responsible business practices, investors can potentially achieve better financial returns while also promoting positive social and environmental outcomes.

Risk mitigation benefit of Environmental, Social and Governance (ESG) investment

ESG investing has been linked to a variety of risk mitigation benefits, including better risk-adjusted returns, improved creditworthiness, and enhanced reputation. A study conducted by Deutsche Asset Management (2016) found that companies with strong ESG practices tend to have lower volatility and higher risk-adjusted returns compared to their peers. This indicates that companies with good ESG practices are better equipped to manage risks and generate sustainable long-term returns.

Furthermore, ESG investing has been found to improve creditworthiness. A study conducted by the International Finance Corporation (2019) found that companies with strong ESG practices tend to have lower default rates and better credit ratings. This suggests that ESG investing can play a key role in mitigating credit risk and improving the creditworthiness of companies.

Moreover, ESG investing can enhance the reputation of companies. A study conducted by the Reputation Institute (2018) found that companies with strong ESG practices tend to have better reputations among stakeholders. This indicates that ESG investing can support reputation management by promoting responsible business practices.

Furthermore, ESG investing can mitigate governance risk by promoting ethical behavior. A study conducted by the University of Oxford (2018) found that companies with strong ESG practices tend to have lower incidents of fraud and corruption. This indicates that ESG investing can play a key role in mitigating governance risk and promoting ethical behavior.

In sum, ESG investing has a range of risk mitigation benefits, including better risk-adjusted returns, improved creditworthiness, and enhanced reputation. ESG investing can also improve corporate governance by promoting responsible business practices, mitigate governance risk by promoting ethical behavior, and support long-term performance by promoting sustainable business practices and innovation. As such, ESG investing has become an increasingly popular investment approach that prioritizes sustainability and has the potential to drive positive change in the economy and society.

Social benefits of Environmental, Social and Governance (ESG) investment

Environmental, Social and Governance (ESG) investment is an investment approach that considers environmental, social, and governance factors alongside financial factors in investment decision-making. In recent years, there has been a growing interest in ESG investing due to its potential to deliver both financial and non-financial benefits. In this literary review, we will focus on the social benefits of ESG investing, including improved corporate behavior, job creation, and community development.

One of the key social benefits of ESG investing is the promotion of improved corporate behavior. ESG investing can incentivize companies to adopt more responsible business practices by rewarding those companies that demonstrate a commitment to ESG issues. This can include improving workplace safety and diversity, reducing greenhouse gas emissions, and promoting human rights. A study by the Principles for Responsible Investment found that companies that score highly on ESG metrics are more likely to adopt sustainable business practices and are less likely to be associated with corporate scandals or controversies (PRI, 2019). Furthermore, ESG investing can encourage companies to be more transparent about their operations, which can help to improve accountability and reduce the potential for negative social impacts.

ESG investing can also have positive social impacts through job creation. Companies that prioritize ESG factors are often more likely to create jobs that provide fair wages and benefits, and that support the development of local communities. This can include creating jobs in sustainable industries, such as renewable energy, and supporting local suppliers and contractors. A study by the Global Impact Investing Network found that impact investors, who focus on social and environmental outcomes alongside financial returns, reported creating more than 380,000 full-time equivalent jobs globally (GIIN, 2020). By supporting companies that prioritize ESG factors, investors can help to create positive social and economic impacts in the communities where these companies operate.

Moreover, ESG investing can help to address social challenges and promote positive social outcomes. For example, investing in companies that prioritize diversity and inclusion can help to reduce inequality and promote social cohesion. Similarly, investing in renewable energy projects can help to mitigate the impacts of climate change, which can have positive social and economic benefits. ESG investing can also promote social innovation and the development of new technologies and business models that support positive social outcomes.

However, it is important to note that ESG investing is not without its limitations and challenges. One of the key challenges of ESG investing is the lack of standardization and transparency in

ESG data and reporting. This can make it difficult for investors to assess the ESG performance of companies and to compare the performance of different companies. Additionally, there is a risk that companies may engage in "greenwashing," or the practice of making false or exaggerated claims about their ESG performance in order to attract investment.

In this way, ESG investing has the potential to deliver significant social benefits, including improved corporate behavior, job creation, and community development. By investing in companies that prioritize ESG factors, investors can support positive social and economic outcomes and help to address social challenges. However, it is important to recognize the limitations and challenges of ESG investing and to carefully evaluate the risks and benefits of ESG investments before making any investment decisions.

Environmental benefits of Environmental, Social and Governance (ESG) investment

ESG investing has been linked to a variety of environmental benefits, including the reduction of greenhouse gas emissions, the promotion of clean energy, and the protection of biodiversity. A study conducted by the Morgan Stanley Institute for Sustainable Investing (2019) found that companies with strong ESG practices had a lower carbon footprint compared to their peers. This indicates that companies with good ESG practices tend to prioritize sustainability and have a positive impact on the environment.

ESG investing can play a crucial role in mitigating the effects of climate change. A study conducted by the University of Oxford (2018) found that companies with strong ESG practices tend to have lower greenhouse gas emissions, lower carbon intensity, and lower exposure to climate change risks. This indicates that companies with strong ESG practices are better equipped to mitigate the risks associated with climate change.

In sum, ESG investing has a range of environmental benefits, including the reduction of greenhouse gas emissions, the promotion of clean energy, and the protection of biodiversity. ESG investing can also play a key role in mitigating the effects of climate change, promoting sustainable development, and supporting responsible business practices. As such, ESG investing has become an increasingly popular investment approach that prioritizes sustainability and has the potential to drive positive change in the economy and society.

Based on the above discussion, this study explores the following research questions:

RQ1. How do college students perceive the benefits of ESG investing?

RQ2. Is there a gender difference?

RQ3. Which benefits do college students emphasize?

RQ4. Is there a gender difference?

III. Methods

Participants

A total of 61 college students in China were surveyed (31 males and 30 females). All respondents were college students in various universities in China.

Procedure

The questionnaire was distributed to 110 randomly selected college students in China through an online survey using social media, and 31 males and 30 females responded (55% response rate).

The questionnaire took 10 minutes to complete. Standard survey methods were employed, and confidentiality of respondents was assured. All the respondents were informed that this survey was voluntary and confidential. The survey was conducted in March and April 2023.

Instrumentation

Four items were used to assess perceived benefits of ESG investing. One item was used for gender identification (nominal scale). The four items were measured using a five-point Likert-type scale ranging from "strongly disagree" (1) to "strongly agree" (5). The internal consistency and reliability of these four items were evaluated through Cronbach's α (.878), which indicated sufficient internal consistency and reliability. These four items include: ESG investing brings benefits in terms of long-term value creation; ESG investing brings benefits in terms of corporate reputation enhancement; ESG investing brings benefits in terms of social benefits; ESG investing brings benefits in terms of environmental benefits.

For the perceived benefits of ESG investing, the respondents were asked to select one of the following four benefits as the most important one: long-term value creation, corporate reputation enhancement, social benefits, environmental benefits.

Analysis

For RQ1, the means and standard deviations for the four items for perceived benefits of ESG investing were evaluated. For RQ2, the difference in means between the groups was analyzed using independent-samples t-test. For RQ3 and RQ4, the chi-square test was used using four key benefits of ESG investing.

IV. Results

RQ1

The respondents generally had favorable attitudes toward benefits of ESG investing (3.4262; SD=.62641). The mean for males was 3.5806 (SD=56784), and that for females was 3.2667 (SD=.65302). <Table 1> shows the means and standard deviations.

<Table 1> Means and standard deviations for benefits of ESG investing

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
score	61	2.00	4.75	3.4262	.62641
Valid N (listwise)	61				

Group Statistics

	Gender	N	Mean	Std. Deviation	Std. Error Mean
score	male	31	3.5806	.56784	.10199
	Female	30	3.2667	.65302	.11922

Note. The higher the mean, the more favorable perception of ESG investing

RQ2

Male respondents (3.5806 (SD=56784)) showed a higher mean than female respondents (3.2667 (SD=.65302). As shown in <Table 2>, the results of the independent-samples t-test show a significant gender difference ($t(59)= 2.006$, $p=.221$), indicating that male respondents were more likely to have favorable attitudes toward benefits of ESG investing.

<Table 2> The independent-samples t-test

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
score	Equal variances assumed	1.530	.221	2.006	59	.049	.31398	.15653	.00076	.62720
	Equal variances not assumed			2.001	57.307	.050	.31398	.15690	-.00016	.62812

RQ3

As shown in <Table 3>, the respondents highlighted social benefits as the most important benefit of ESG investing, followed by environmental benefits, long-term value creation , and corporate reputation enhancement, in that order.

<Table 3> Most important benefits of ESG investing (N, %)

Gender * Factor Crosstabulation

			Factor				Total
			long-term value creation	corporate reputation enhancement	social benefits	environmental benefits	
Gender	Male	Count	8	1	13	9	31
		% within Gender	25.8%	3.2%	41.9%	29.0%	100.0%
	Female	Count	5	8	12	5	30
		% within Gender	16.7%	26.7%	40.0%	16.7%	100.0%
Total		Count	13	9	25	14	61
		% within Gender	21.3%	14.8%	41.0%	23.0%	100.0%

RQ4

As shown in <Table 3>, male students were most likely to identify social benefits as the most important benefit of ESG investing, followed by environmental benefits, long-term value creation , and corporate reputation enhancement, in that order. Female students were most likely to identify social benefits as the most important benefit of ESG investing, followed by corporate reputation enhancement. Environmental benefits and long-term value creation then followed equally. The results of the chi-square test for the relationship between gender and these elements indicate a significant relationship ($\chi^2(3) = 7.305$, $p<0.1$). Cramer's V was .346, implying a strong relationship.

V. Discussion

This study investigates the financial, social, and environmental benefits of ESG investing. According to the results, the respondents generally had favorable attitudes toward benefits of ESG investing (3.4262; SD=.62641). The mean for males was 3.5806 (SD=56784), and that for females was 3.2667 (SD=.65302). Male respondents (3.5806 (SD=56784)) showed a higher mean than female respondents (3.2667 (SD=.65302), indicating that male respondents were more likely to have favorable attitudes toward benefits of ESG investing. The respondents highlighted social benefits as the most important benefit of ESG investing, followed by environmental benefits, long-term value creation , and corporate reputation enhancement, in that order. Male students were most likely to identify social benefits as the most important benefit of ESG investing, followed by environmental benefits, long-term value creation, and corporate reputation enhancement, in that order. Female students were most likely to identify social benefits as the most important benefit of ESG investing, followed by corporate reputation enhancement. Environmental benefits and long-term value creation then followed equally.

The results have important implications for corporations and investors. They should target their investment promotion activities more toward female targets for greater impacts of their activities. Future research should expand the respondents to include more diverse age and sociodemographic groups.

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