

Environmental, Social, and Governance Performance and Its Financial Impacts: A Comparative Analysis of Companies in Asia

The global landscape for sustainable investments has witnessed substantial growth, with assets reported by the Global Sustainable Investment Alliance increasing from USD22.8 trillion in 2016 to USD35.3 trillion in 2020. Institutional investors, managing a total of USD98.4 trillion in assets, have designated more than one-third of these as environmental, social, and governance (ESG) investments. Notably, the Principles for Responsible Investment, a United Nations-supported international organization that encourages investors to take more responsibility with their investments, had garnered over 4,900 signatory organizations, representing a total of approximately USD121 trillion in managed assets, as of March 2022. The expansion of ESG investments has been particularly pronounced in the United States and Europe, where the number of signatories far surpasses those in Asia, emphasizing the growing global momentum toward responsible and sustainable investing.

ESG performance, which is the key factor contributing to ESG investment decisions, mainly refers to the evaluations provided by major ESG raters in the global market. However, current ESG ratings are criticized for their lack of commensurability, which can result in a misunderstanding of ESG practices and thereby confuse investment decisions. Furthermore, cultural contexts, such as the characteristics of individual institutions and the level of regional sustainability, play an important role in determining ESG performance and its financial impacts. To clarify these issues, this study delves into the world of ESG ratings provided by six major global rating agencies to compare ESG rating components at the firm level and

investigate the effects of market-specific attributes on ESG performance. The goal is to offer practical insights by empirically showcasing differences in ESG performance and financial impacts, with a special focus on companies in Asia.

The study reveals notable disparities in ESG scores across various raters, potentially leading to divergent interpretations when making investment decisions. The inconsistencies among ESG ratings are due to differences in the evaluated ESG components and the subjective-objective nature of the assessment procedures (**Figure 23a**). As a result, there is low correlation among scores given by the major ESG raters (**Figure 23b**).

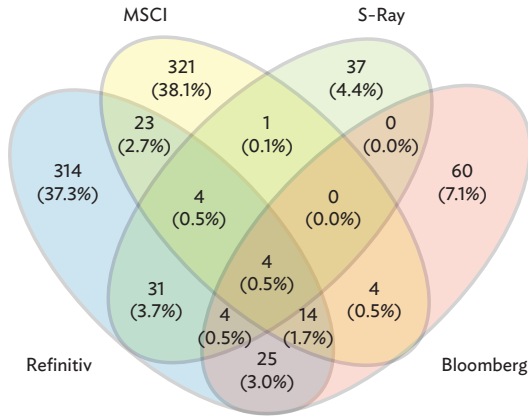
While there is a lack of commensurability in ESG rating metrics, these ratings better reflect consensus at the market level. For example, the average ESG performance of firms in European economies exceeds that of their counterparts in Asian economies (**Figure 24**).

The financial implications of ESG practices vary across markets (**Figure 25**). Some Southeast Asian enterprises tend to see a higher correlation between ESG performance and financial performance, while businesses in developed economies and many other developing Asian economies see less correlation between implementing ESG strategies and companies' earnings and profitability. Considering the nature of ESG practices in improving corporate sustainability in the long term (**Figure 25b**), the financial impacts on firm value, proxied by Tobin's Q, are much more significant than short-term profitability (**Figure 25a**), captured by return on assets.

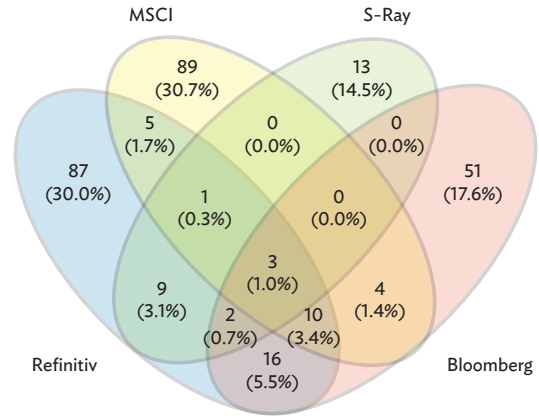
Figure 23: Inconsistent Assessment Items across Environmental, Social, and Governance Raters

(a)

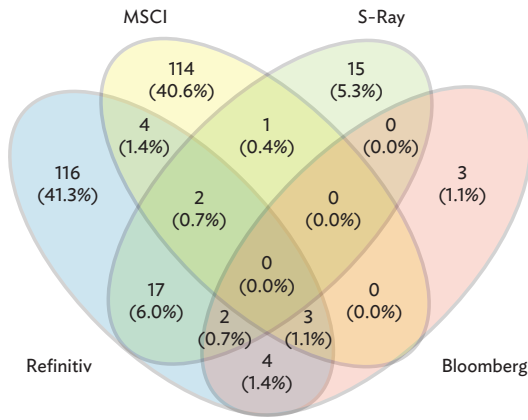
ESG



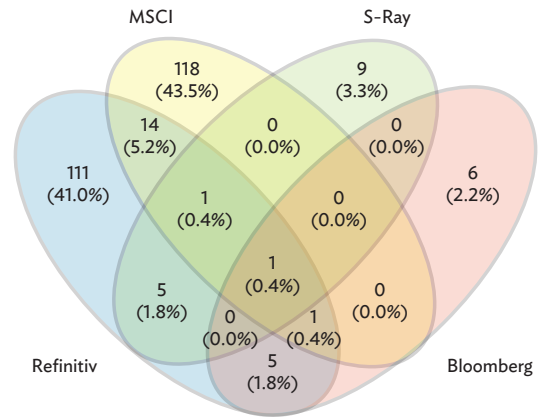
Environmental



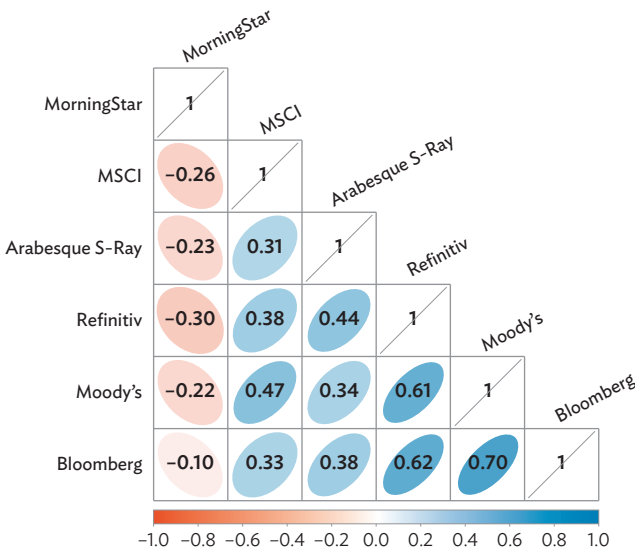
Social



Governance



(b)

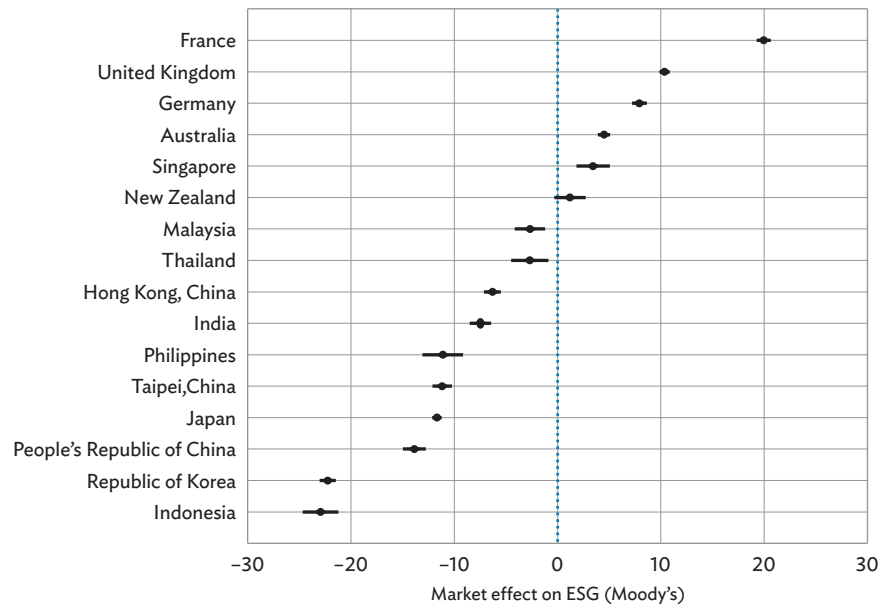


ESG = environmental, social, and governance; MSCI = Morgan Stanley Capital International.

Notes: In panel (a), rating items from MSCI, Refinitiv, Bloomberg, and S-Ray are considered in the analysis. This chart shows the number (percentage) of common items among raters. Panel (b) shows the correlations of ESG scores among different ESG raters, covering the sample in 2019. MorningStar scores evaluate ESG risk, which is negatively related to other ratings.

Sources: Panel (a) is based on Keeley, Alexander, Andrew Chapman, Kenichi Yoshida, Jun Xie, Janaki Imbulana, Shutaro Takeda, and Shunsuke Managi. 2022. "ESG Metrics and Social Equity: Investigating Commensurability." *Frontiers in Sustainability*. 3 (2022); Panel (b) is based on authors' calculations.

Figure 24: Environmental, Social, and Governance Ratings across Economies



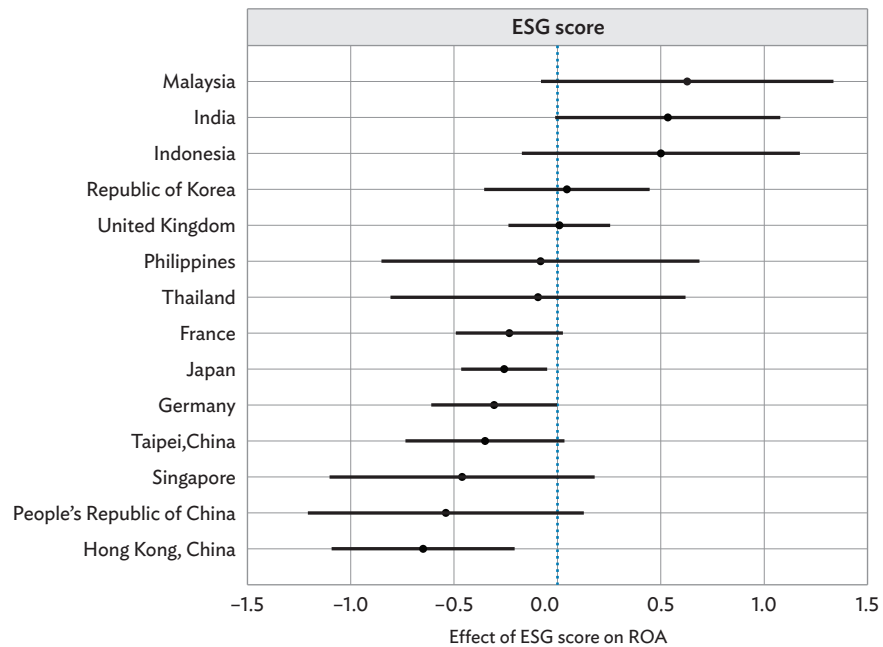
ESG = environmental, social, and governance.

Notes: The sample covers 13,927 firm-year observations from 38 economies during 2013–2022. The error bar denotes a 95% confidence interval.

Source: Authors' compilation based on Moody's Environmental, Social, and Governance Database.

Figure 25: Financial Impacts of Environmental, Social, and Governance Ratings across Economies

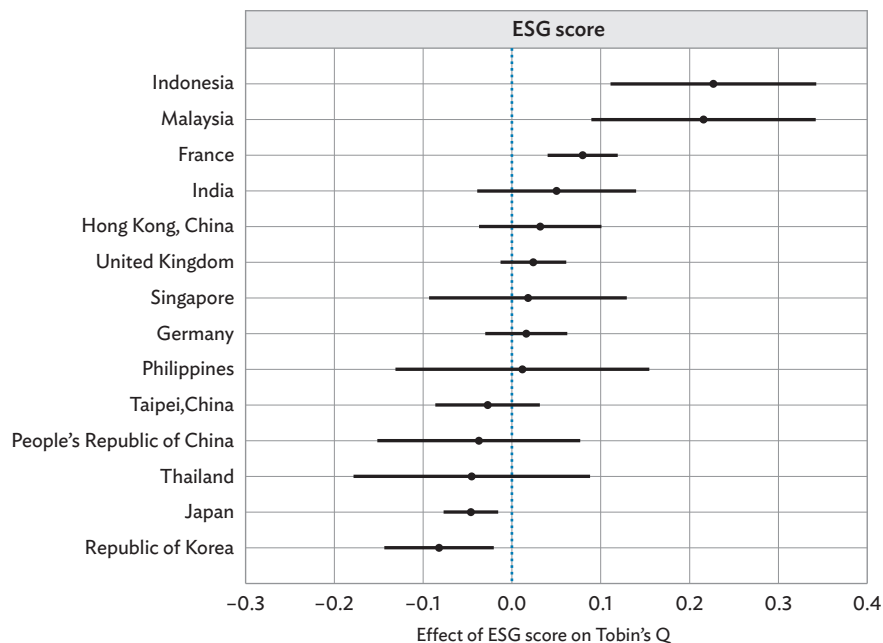
(a)



continued on next page

Figure 25 continued

(b)



ESG = environmental, social, and governance; ROA = return on assets.

Notes: The analysis utilizes Moody's ESG rating as ESG performance. The sample covers 16,327 firm-year observations from 38 economies during 2013–2022. The error bar denotes a 95% confidence interval.

Sources: Authors' compilation based on Moody's Environmental, Social, and Governance Database and financial information from Refinitiv Eikon.

This study highlights the necessity of a standardized ESG assessment methodology to enable better comparability in making investment and business decisions. Transparency in the assessment process is crucial to enhancing the understanding of ESG ratings. Investors are encouraged to consider market-specific differences, while practitioners are advised to tailor ESG solutions to the company context and the domestic socioeconomic environment.

In conclusion, this study underscores the importance of nuanced considerations in ESG practices, accounting for methodological disparities and contextual factors. It recommends transparency, standardized methodologies, and the use of company- and market-specific contexts as key elements for businesses and investors navigating the complex landscape of ESG.