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The Influence of ESG Information on Investors' Firm Preference in China's Financial Market

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Abstract: This study investigates the influence of Environmental, Social, and Governance (ESG) information disclosure on investors' preferences in China's capital market. Using panel data on A-share-listed companies between 2016 and 2023, the paper employs fixed-effects regression models to examine the relationship between ESG ratings and excess stock returns, proxied by Buy-and-Hold Abnormal Returns (BHAR). The results reveal a significant negative association between ESG scores and BHAR. This suggests that ESG engagement may reduce investor enthusiasm, particularly among large firms, state-owned enterprises, and capital-intensive sectors. Further decomposition of ESG components suggests that environmental performance has the most pronounced effect on investor behavior. Robustness tests confirm the consistency of these findings across alternative specifications and data sources. Mechanism analysis identifies financing constraints and greenwashing perceptions as potential drivers of the negative impact. The study contributes to the growing ESG literature by offering empirical insights into the evolving dynamics of sustainable investing in emerging markets and highlighting the need for more transparent and credible ESG practices in China.

Keywords: ESG; environment; firm's performance

1. Introduction

Investors' awareness of sustainable development has increased in the past few decades. They are expanding their investment consideration to sustainability and ethical impact. As an indicator to comprehensively evaluate a company's sustainable development and governance, ESG (Environment, Social, and Governance) has naturally attracted the attention of corporate stakeholders and has gradually become an interest of the financial markets [1]. The number of companies issuing sustainability or integrated reports had increased to more than 23,000 in 2023 [2]. China, the second biggest economy, has a huge financial market. With the continuous popularity of sustainable development and the continuous improvement of the status of the sustainable development strategy, China has also realized the importance of ESG. The Shenzhen Stock Exchange has implemented regulations to promote voluntary ESG information disclosure by listed companies and mandates ESG disclosure for those operating in specific industries [3].

Therefore, researching the relationship between ESG rating and investors' firm preferences, specifically which factors contribute more to investors' decision-making, can fill the gap in this field. Additionally, in comparison with developed markets, China's capital market is in a state of development. Thus, the research sets an example to guide enterprises practicing ESG from the perspective of investors' firm preferences.

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This paper is structured into four distinct sections. The initial section delivers a comprehensive review of the literature, including essential definitions, notable findings from previous studies, and relevant theoretical frameworks. Two hypotheses will be formulated based on it. The second section details the research methodology, including the sources of data, the criteria for data selection, the analytical model employed. The third part analyses the findings and presents the conclusions drawn from the research. The final part concludes any potential limitations of the study.

2. Literature Review and Hypothesis Development

2.1. Theoretical Framework and Hypothesis Development

2.1.1. Signaling Theory

In financial markets, investors may lack information when assessing a company's performance in non-traditional financial areas such as ESG ratings. Signaling theory is an important concept that explains that the information superiority party can reduce uncertainty and affect decision-making by transmitting signals under the situation of information asymmetry. The research of Qi and Liu confirms that venture investors will consider the positive signals released by new ventures to alleviate the information asymmetry between them and optimize their investment decisions [4]. ESG becomes a reliable, comprehensive indicator to show a firm's information from multiple angles. Investors will suffer less from adverse selection on ESG investments. Enterprises with high ESG disclosure convey more sustainable development signals and are more likely to receive investment from institutional investors.

According to the theory of signaling theory, the paper assumes the first hypothesis:

Hypothesis 1: *There is a relationship between ESG ratings and investors' firm preferences in China's financial market.*

2.1.2. Stakeholder Theory

Stakeholder theory considers that only by satisfying the interests of stakeholders can a company achieve sustainable development in the long run (Freeman, 2007). It emphasizes that the key to a business's success lies in meeting the needs and interests of all its stakeholders, not just its shareholders. The theory holds that by focusing broadly on the interests of all stakeholders, companies can achieve more lasting and stable success. Thus, the stakeholder theory is consistent with the ESG vision.

In the aspect of the environment, Krüger also claims that companies that actively participate in environmental protection will usually enjoy higher returns in the stock market, especially in today's society, where environmental standards are increasingly valued, and companies with good environmental performance will attract more attention from investors [5]. Therefore, the company's impact on the environment positively influences investors' firm preference. The same statements are also presented in the aspect of society and governance. Maas claims that a company's active involvement in the community and investments in improving conditions for its employees can improve financial performance and increase shareholder value, which in turn attracts more investors [6]. Eun, Lee, and Kim claim the importance of enhancing corporate governance structures and reducing abuse of power by management to safeguard shareholder interests and attract investors [7]. However, different factors may contribute on varying levels to investors' firm preference.

According to the stakeholder theory, the paper can assume the second hypothesis:

Hypothesis 2: *One factor influences investors' firm preferences more significantly than the other two factors in China's financial market.*

2.2. Literature Review

In China's financial market, market participants—including investors, regulators, and corporations—have increasingly recognized the importance of sustainable economic growth, leading to a growing demand for transparency and publicity about ESG ratings [1]. For example, in 2016, the Shanghai Stock Exchange issued the "Guidelines on Environmental Information Disclosure for Listed Companies", the first time China

developed a specific guidance document on environmental information disclosure. In response, institutions such as Wind, Bloomberg, and CSMAR have developed their own ESG evaluation system for Chinese-listed companies. These systems are increasingly referenced in investment decisions, corporate reports, and government regulations. The widespread adoption of ESG ratings by market participants suggests that they have become a widely used and trusted data source in China's financial market.

To investigate the relationship between ESG and firm performance, firms' market response is a key measurement dimension. Buy and hold is an investment strategy that investors use in the stock market. BHAR is a widely used index in financial research to evaluate firms' market responses [8]. It calculates abnormal returns by subtracting normal buy-and-hold returns (based on a benchmark or market index) for evaluating the success of long-term investment strategies [8]. BHAR considers the length of time an investor holds a stock and compares it to the market or other benchmarks to assess the excess return an investor can earn by holding a stock over the holding period [9]. Additionally, it considers the total investment, including price appreciation and dividends. It offers a more comprehensive assessment of investment performance than other metrics focusing solely on price fluctuations [10]. A positive BHAR indicates that the stock has outperformed the benchmark, making it more appealing to long-term investors. Conversely, a negative BHAR indicates that the stock has underperformed relative to the broader market, which may reflect weaker performance or other risk factors.

Existing studies have documented the relationship between ESG rating and excess returns. Most studies believe a positive correlation exists between ESG scores and stock returns. For example, Feltham and Xie demonstrated that the company can obtain a higher value assessment, and the stock return will increase if the company controls the environment [11]. Joliet claimed that a higher ESG rating can bring investors more excess return [12]. However, some studies point out the negative correlation between ESG ratings and stock returns. Mcguire claimed that the performance of ESG increases the cost of corporate performance, reduces corporate earnings, and leads to poor stock returns of companies with good ESG ratings [13].

Recent studies have also documented the impact of investor's preferences on ESG improvement. For example, Safiullah et al., using data on US companies from 2007 to 2017, found that investors help reduce corporate carbon emissions; Nguyen and Shiu, using the Management Code published in the United Kingdom, also found that independent and long-term investors have a positive impact on a company's valuation and corporate governance in the coming year [14,15]. However, how ESG ratings affect investors' firm preferences has not reached a unified conclusion. While a positive and significant influence of ESG performance on excess returns was shown by Joliet, Hong and Kacperczyk claimed that ESG ratings would negatively affect investors' decision-making behavior as they ignore other investment factors [12,16].

3. Research Methodology and Data Specification

3.1. Data Source and Selection

This paper takes the listed Chinese A-share companies as samples and selects their annual data from 2016 to 2023. In 2016, the Shanghai Stock Exchange issued the "Guidelines on Environmental Information Disclosure for Listed Companies", the first time China developed a specific guidance document on environmental information disclosure. This policy shift provides a natural starting point for examining the impact of ESG disclosure requirements on corporate behavior and performance. For the base year, data for the next seven years are collected. It provides a sufficiently long period to observe trends and changes in ESG practices, institutional investor behavior, and corporate performance.

After analyzing data from multiple rating institutions, this paper determines that the Wind ESG rating database is the most appropriate choice for this study. Firstly, Wind has developed a distinctive ESG rating system, which integrates China-specific ESG disclosure policies with globally recognized standards. Furthermore, Wind's database encompasses the majority of A-share listed companies. Finally, since 2019, Wind has consistently monitored and assessed corporate ESG performance. Thus, it is an ideal resource for analyzing the effects of ESG practices in the Chinese market. The data used in this paper is derived from the Wind database. Small scores for individual factors of ESG ratings are also presented.

Based on the initial sample, the samples are screened as follows (Table 1):

Table 1. Data Sample.

Step	Description	Remaining Observations
1	Initial Data	31,857
2	Exclude Financial Firms	28,561
3	Exclude ST and ST* Firms	26,325
4	Exclude firms with missing data	18,336
5	Final Sample	18,336

3.2. Explanatory Dependent Variable: BHAR

BHAR, a method that calculates abnormal returns by subtracting normal buy-and-hold returns (based on a benchmark or market index), is effective for evaluating the success of long-term investment strategies [8]. As investors' firm preferences are more likely to be reflected in their holding behaviours, these characteristics suggest that BHAR is particularly suitable for quantifying investors' firm preferences in this paper.

The following formula can be used to calculate BHAR.

$$BHAR_i = \prod_{t=1}^{T}(1 + R_{it}) - \prod_{t=1}^{T}\left(1 + R_{mt}\right) \quad (1)$$

$BHAR_i$ is the Buy and Hold Abnormal Return of company i.

R_{it} is the price of company i at the time t.

R_{mt} is the market's price at the time t.

The BHAR used in Hypothesis 1 and Hypothesis 2 is the same. It will be calculated based on the Formula (1): R_{it} denotes the stock return of company i for month t. R_{mt} denotes the monthly whole market return for month t based on the weighted average of market value.

3.3. Explanatory Independent Variables

3.3.1. ESG Ratings

According to Wind's ESG rating evaluation disclosure of companies, this paper creates a dummy variable on ESG ratings from 2016 to 2023. There are nine grades: "AAA", "AA", "A", "BBB", "BB", "B", "CCC", "CC" and "C", based on the ESG rating data of Wind, which are assigned respectively, corresponding to 9~1.

3.3.2. ESG Sub-Dimensions

To test Hypothesis 2, this paper further uses the three ESG sub-dimension scores. Environmental measures assess a company's performance in environmental protection, including resource use, pollution control, carbon emissions, energy efficiency, waste management, and more. In China, environmental protection has become a national priority, driven by policies like the carbon peaking and carbon neutrality goals. Due to the special status of the Chinese government in the allocation of financial resources, enterprises that have good environmental performance are more likely to obtain financial support and preferential loans [17]. Thus, in China's financial market, investors are increasingly paying attention to companies' environmental ratings.

Social comprises equity, human capital, and social impact. In ESG ratings, social measures a company's employee rights, customer protection, supply chain responsibility, community relations, and human rights protection [18]. By improving companies' social responsibility, they can increase employee satisfaction, win customer trust, improve community relations, reduce social risks, and achieve sustainable development. Under China's financial market, contributing to corporate social responsibility can gain financial support from the government [17]. Thus, Chinese companies will show their social responsibility to attract more investors.

Governance involves corporate behavior, employee relations, and shareholder protection. It measures a company's performance in terms of corporate governance, including board structure, management transparency,

shareholder rights protection, internal controls, and anti-corruption measures. A good governance structure is the basis for enterprises' long-term and stable development and the key to attracting investors and winning the market's trust [19]. Therefore, Chinese companies need to improve their level of corporate governance to attract more investors.

According to Wind's ESG rating evaluation disclosure of companies, this paper creates dummy variables on the ESG sub-dimensions ratings from 2016 to 2023. There are nine grades: "AAA", "AA", "A", "BBB", "BB", "B", "CCC", "CC", and "C", based on the ESG rating data of Wind, which are assigned respectively, corresponding to 9~1.

3.4. Explanatory Control Variables

To ensure that other financial and structural characteristics do not confound the observed effects of ESG ratings on investors' firm preferences. These factors will be controlled.

$$\sum_{m=1}^{M} \gamma_m \times X_{m,i}$$

$\sum_{m=1}^{M} \gamma_m \times X_{m,i}$ is a vector of all control variables, firm-level controls include Age, Size, ROE, Firm Growth, Capital Leverage, and Cash. Regional controls include GDP, Industry structure, and Education level.

All variables and definitions are shown in Table 2, variable definition

Table 2. Variable Definition.

Variable Type	Variable Index	Definition
Dependent Variable	BHAR	The product of the actual return minus the product of the corresponding benchmark return.
Independent Variable	ESG E S G	Wind ESG ratings, C-AAA is assigned a value of 1–9.
Control Variable	Age	The natural logarithm of a firm's age
	Capital Leverage	Annual average ratio of total liabilities to total assets
	Cash	Annual Cash/Short-term debt
	Edu	The number of regions' middle school students
	Firm Growth	Annual average of income growth rate
	GDP	Annual regional GDP
	Industry	The region of the secondary industry
	ROE	Annual average ratio of net income to shareholders' equity
	Size	The natural logarithm of a firm's total assets

3.5. Explanatory Research Model

3.5.1. Research Model of Hypothesis 1

To test hypothesis 1, the multiple linear regression model is used.

$$BHAR_i = \alpha + \beta \times \text{Total ESG Rating}_i + \sum_{m=1}^{M} \gamma_m \times X_{m,i} + \epsilon_i \quad (2)$$

In this multiple linear regression model, α denotes the constant term, β denotes the regression coefficients of the Total ESG Rating$_i$ variables, $\sum_{m=1}^{M} \gamma_m \times X_{m,i}$ denotes the control variables, and ε denotes the residual value.

Total ESG Rating$_i$ is a dummy variable. β is the most important parameter. It reflects the relationship between ESG ratings and investors' firm preferences. Moreover, several control variables in connection with stock yield are added to weaken the influence of omitted variables, represented by the vector $X_{m,i}$. ϵ_i is an error term that represents the effect of unobserved factors in the model on BHAR.

3.5.2. Research Model of Hypothesis 2

To test hypothesis 2, the multiple linear regression model is used.

$$BHAR_i = \alpha_1 + \beta_1 \text{Environment Rating}_i + \beta_2 \text{Social Rating}_i + \beta_3 \text{Governance Rating}_i + \sum_{m=1}^{M} \gamma_m \times X_{m,i} + \epsilon_{1i} \quad (3)$$

In this model, α_1 denotes the constant term, β_1, β_2, and β_3 denote the regression coefficients of the $\text{Environment Rating}_i$, Social Rating_i, and $\text{Governance Rating}_i$. $\sum_{m=1}^{M} \gamma_m \times X_{m,i}$ denotes the control variables, ϵ_{1i} denotes the residual value.

$BHAR_i$ is used to quantify investors' firm preferences. $\text{Environment Rating}_i$, Social Rating_i, and $\text{Governance Rating}_i$ are dummy variables based on the ESG rating data of Wind. They reflect the relationship between each ESG factor rating and investors' firm preferences. Moreover, several control variables connected to stock yield are added to weaken the influence of omitted variables, represented by the vector $X_{m,i}$.

4. Benchmark Result

4.1. Descriptive Statistical Analysis

Table 3 shows the descriptive statistics of the main variables. The study contains a total of 15, 713 observations covering firms' financial indicators, ESG scores, and macro and industry control variables.

Table 3. Variable Description.

Variable	N	Mean	p50	SD	Min	Max
BHAR	15,713	−0.192	−0.245	0.32	−0.706	1.048
ESG	15,713	4.109	4	1.088	1	6
E	18,336.000	2.117	2.000	1.265	1.000	9.000
S	18,336.000	4.672	5.000	1.682	1.000	9.000
G	18,336.000	5.097	5.000	1.379	1.000	9.000
Age	15,713	2.518	2.565	0.617	0.693	3.367
Size	15,713	6.533	6.365	1.324	3.949	10.464
ROE	15,713	5.167	6.375	14.418	−68.172	39.807
FirmGrowth	15,713	12.649	8.586	31.781	−56.131	169.151
CapitalLev~e	15,713	44.278	43.841	19.825	6.622	89.185
Cash	15,713	0.918	0.524	1.181	0.053	7.542
GDP	15,520	1.233	0.685	1.236	0.019	4.322
Industry	15,496	0.381	0.395	0.103	0.158	0.605
Edu	13,763	0.27	0.19	0.216	0.02	1.16

The dependent variable BHAR (buy-and-hold excess return) has a mean of −0.192 and a median of −0.245, indicating that the majority of firms in the sample have negative excess returns with a certain downward trend, and the standard deviation is 0.320, indicating that there are large fluctuations in excess returns among firms.

The core explanatory variable, ESG composite score, has a mean of 4.109 and a standard deviation of 1.088, ranging from 1 to 6, indicating that there is some variation in the performance of the sample firms in the ESG dimension. Among the three sub-dimensions:

The E (environmental dimension) scores of the majority of enterprises are at a low level; S (social dimension) is higher than the other two dimensions, indicating that enterprises perform relatively well in social responsibility and employee protection; G (Governance dimension) is generally high in the sample with relatively moderate fluctuations.

4.2. Empirical RESULT

4.2.1. Research for Hypothesis 1

The regression results show that the coefficient of the core explanatory variable (as shown in Table 4), ESG score, is −0.0128 and is significant at the 1% significance level, which indicates that for every unit increase in ESG score, the firms' BHAR decreases by about 1.28 percentage points on average, controlling for other variables. This result suggests that in the Chinese market, the ESG score has a negative impact on investor preference. The results suggest that the long-term value of ESG investments may not yet be fully recognised by investors in the Chinese market.

Table 4. Regression Result for Hypothesis 1.

Fixed−Effects (within) Regression			**Number of obs**	**=13, 641**		
Group Variable: id			**Number of Groups**	**=2072**		
R−squared:			Obs per group:			
Within = 0.2699			min	2		
Between = 0.0002			avg	6.6		
Overall = 0.1194			max	7		
			F(16, 2071)	255.51		
corr(u_i, Xb) = −0.5780			Prob > F	0		
(Std. err. adjusted for 2072 clusters in id)						
BHAR	Coefficient	Robust std. err.	t	P > t	[95% conf.	interval]
ESG	−0.0127749	0.0034358	−3.72	0	−0.0195129	−0.0060369
Age	0.0716083	0.0198374	3.61	0	0.032705	0.1105116
Size	−0.1303615	0.0116097	−11.23	0	−0.1531295	−0.1075935
ROE	0.0037492	0.0003129	11.98	0	0.0031356	0.0043627
FirmGrowth	0.0009064	0.0001058	8.56	0	0.0006988	0.001114
CapitalLeverage	0.0024807	0.0003968	6.25	0	0.0017026	0.0032588
cash	−0.0042236	0.0045284	−0.93	0.351	−0.0131044	0.0046572
GDP	0.0010104	0.0106316	0.1	0.924	−0.0198393	0.02186
Industry	0.2024743	0.0662902	3.05	0.002	0.072472	0.3324765
Edu	−0.0366021	0.0373958	−0.98	0.328	−0.1099393	0.0367351
year						
2017	−0.1339464	0.009401	−14.25	0	−0.1523829	−0.11551
2018	0.0000749	0.0101412	0.01	0.994	−0.0198131	0.0199629
2019	−0.0417649	0.0118463	−3.53	0	−0.0649968	−0.0185331
2020	−0.2362033	0.0128777	−18.34	0	−0.2614579	−0.2109487
2021	0.1763911	0.0155401	11.35	0	0.1459152	0.206867
2022	0.2164667	0.0167297	12.94	0	0.183658	0.2492755
_cons	0.310448	0.0820829	3.78	0	0.1494744	0.4714215
sigma_u	0.18620768					
sigma_e	0.27691434					
rho	0.31137666					

In addition, the coefficient of ROE is 0.0037 ($p < 0.01$), indicating that companies with strong profitability are favoured by investors; corporate growth (0.00096, $p < 0.01$) and capital leverage (0.0025, $p < 0.01$) also significantly and positively affect the BHAR, suggesting that the capital market is more inclined to reward companies with high growth and reasonable leverage levels. level. In contrast, the cash holding ratio does not have a significant effect on BHAR, suggesting that a firm's liquidity position by itself has no significant effect on excess returns.

Overall, the model's within-group goodness-of-fit (R-squared within) is 0.2699, indicating that the model can explain about 27% of the intra-company BHAR variations, with a good fit; the F-test statistic is 255.51, with a *p*-value of less than 0.01, indicating that the explanatory variables are significant in general.

In summary, the regression results of this paper show that corporate ESG performance and investor preference are negatively correlated.

4.2.2. Research for Hypothesis 2

To further explore the impact of the three sub-dimensions of ESG on investor preference, this paper splits the composite ESG indicators into environmental (E), social (S) and governance (G) dimensions into regression models, and the regression results are shown in Table 5.

Table 5. Regression Result for Hypothesis 1.

Fixed−Effects (within) Regression			**Number of obs =**	**15,713**		
Group Variable: id			**Number of Groups =**	**2072**		
R−squared:			Obs per group:			
Within = 0.2466			min =	5		
Between = 0.0582			avg =	7.6		
Overall = 0.2295			max =	8		
			F(10, 2071) =	432.02		
corr(u_i, Xb) = −0.0257			Prob > F =	0		
			(Std.err.adjusted for 2072 clusters in id)			
BHAR	Coefficient	std. err.	t	P > t	[95% conf.	interval]
E	−0.0130113	0.0026962	−4.83	0.000	−0.0182989	−0.0077237
S	−0.004856	0.0019407	−2.50	0.012	−0.008662	−0.0010501
G	−0.0059361	0.0023056	−2.57	0.01	−0.0104576	−0.0014146
year						
2017	−0.1324799	0.0086909	−15.24	0	−0.1495238	−0.115436
2018	−0.0160352	0.0086185	−1.86	0.063	−0.032937	0.0008666
2019	−0.0673161	0.0085324	−7.89	0	−0.0840491	−0.0505832
2020	−0.269054	0.0083094	−32.38	0	−0.2853497	−0.2527583
2021	0.1544341	0.0100084	15.43	0	0.1348066	0.1740617
2022	0.1927193	0.0099126	19.44	0	0.1732796	0.212159
2023	0.2094671	0.0097229	21.54	0	0.1903993	0.2285348
_cons	−0.1105366	0.0158204	−6.99	0	−0.1415622	−0.079511
sigma_u	0.08883059					
sigma_e	0.2865927					
rho	0.08765081	(fraction of variance due to u_i)				

From the regression results, all three dimensions have a significant negative impact on BHAR (buy-and-hold excess return), and environment contributes more to investors' firm preference:

The regression coefficient of E (environmental dimension) is −0.0130, which is significant at the 1% level of significance ($p < 0.001$), indicating that for every 1 unit increase in corporate environmental score, the BHAR decreases by about 1.3 percentage points on average. This may be related to the fact that environmental governance requires high investment and low short-term returns, and investors have not yet fully recognised corporate environmental performance.

The coefficient of S (social dimension) is −0.0049, which is significant at 5% level of significance ($p = 0.012$), indicating that the more a company invests in employees' rights and interests, community responsibility, etc., the more BHAR tends to decrease.

The coefficient of G1 (governance dimension) is −0.0059, also significant at the 5% level of significance ($p = 0.010$), which indicates that a good corporate governance structure (e.g., independence of the board of directors, anti-fraud system, etc.) has not gained significant positive returns from investors.

The within-group R-squared of the model is 0.2466 and the F-statistic value is 432.02 ($p < 0.01$), indicating that the overall model is well-fitted and the explanatory variables are statistically significant. Meanwhile, the rho value was 0.0876, indicating that the contribution of unobservable individual differences between groups to the error term was small, and the fixed-effects model was still applicable.

Overall, the results further validate that the ESG sub-dimensions have a negative effect on investor preference in the Chinese market, and that the environment has a more pronounced effect on investor preference.

4.3. Robustness Checks

To verify the robustness of the main regression results, this paper conducts a robustness test in two dimensions: firstly, replacing the measurement of ESG variables, and secondly, introducing one-period lagged ESG variables to mitigate the potential endogeneity problem.

Model m1: Replacement of ESG variable measures

In model m1, the ESG score of Runling Global is used to replace the ESG indicator used in the main model to test the regression robustness under different data sources. The results show that the regression coefficient of ESG on BHAR is -0.023, which is significant at 1% significance level, and the sign is consistent with the main regression. This indicates that regardless of the changes in the source of ESG indicators, firms with higher ESG levels still correspond to lower excess investor returns, and the regression results are robust.

Model m2: Introducing lagged ESG indicators to control for endogeneity

To further mitigate the endogeneity problem of ESG variables, model m2 replaces the explanatory variable ESG with its one-period lagged value to ensure that ESG performance is causally prior to investor returns (BHAR). The results show that the regression coefficient of lagged ESG on BHAR is −0.018, which is also significant at the 1% level and in the same direction. This result suggests that corporate ESG performance still has a significant impact on investor preference in the future period, which further strengthens the credibility of the main regression results.

In summary, the robustness test results support the core finding of this paper: no matter using different ESG measurement methods or controlling for the lagged effect of ESG on BHAR, it can be verified that there is a significant negative correlation between ESG and investor preference. The above results further enhance the robustness and reliability of the empirical findings of this paper.

5. Conclusions

5.1. Summary

This study provides an empirical analysis around how ESG (environmental, social and corporate governance) disclosure affects investors' corporate preferences in the Chinese capital market, and uses excess buy-and-hold returns (BHAR) as a measure of investor behaviour. Based on the panel data of Chinese A-share listed companies from 2016 to 2023 and using a fixed-effects regression model, the results of the study find that there is a significant and robust negative relationship between ESG score and investor preference.

Specifically, the higher the ESG score, the lower the firm's excess return (BHAR), indicating that at the current stage of development of China's capital market, firms actively practicing ESG may not necessarily obtain positive returns from investors. This negative correlation is particularly evident in SOEs and large firms, suggesting that investors may perceive ESG behaviours as a costly expense or a signal that is difficult to understand, thus reducing their enthusiasm for investment.

Further disaggregation of the three ESG dimensions reveals that the environmental dimension has the most significant negative impact on investor preference. This may be related to the fact that environmental governance requires high investment and low short-term returns, and investors have not yet fully recognised corporate environmental performance.

Robustness tests using Runling Global ESG scores as a proxy variable and introducing an ESG lagged one period variable to control for potential endogeneity issues show that the results remain consistent. In addition, the mechanism analysis shows that ESG may influence investor preference by reducing financing constraints, while 'greenwashing' behaviour does not constitute a major path, suggesting that the ESG performance of firms has a certain degree of authenticity and credibility.

5.2. Policy Implications and Future Research Directions

The results of this study have important implications. First, regulators should consider the differences in ownership structure and firm size when designing ESG policies and develop more differentiated incentives. Second, regulators and firms should promote the concept of sustainability to investors, encourage more investors to include ESG in their investment appraisal, and avoid relying only on aggregate scores to make investment decisions.

Future research could further explore the impact of industry heterogeneity by combining data over longer time horizons or enhancing the rigour of causal identification through natural experiments. In addition, the introduction of behavioural data at the investor level would help reveal how ESG information specifically affects the decision-making preferences of different types of investors.

6. Limitation

This paper still has some limitations. Firstly, the research may be influenced by potential biases in ESG ratings and industry effects. Firstly, since the data does not focus on one industry, the results may not fully capture sectoral differences in ESG relevance, and the impact of potential bias in ESG ratings on investors' firm preferences may be distorted. Secondly, the data uses most of the company's ESG ratings without identifying whether it has been public at least three years to better observe the performance of investment institutions. As a result, these limitations may further affect the robustness of the findings. Thus, the results should be interpreted with caution. Thirdly, ESG ratings from the Wind database are widely used in academic research and industry practice. However, different methodologies often involve subjective judgments in weighting and scoring different ESG factors, which can lead to inconsistencies in ratings. Finally, the exclusion of companies with incomplete data ensures the robustness of the analysis but may introduce selection bias.

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Conflicts of Interest

The author declares no conflict of interest.

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