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The Impact of ESG Investments on Capital Markets, Economies and Firms' Performance

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Investments in ESG (Environmental, Social, and Governance) have been shown to have a significant impact on capital markets, international economies, and firms[1] performance. In terms of capital markets, the demand for ESG investments has grown rapidly in recent years, with investors increasingly seeking to align their investments with their values and beliefs. This has led to a significant increase in the number of ESG investment funds and products, which has in turn driven up the prices of ESG-linked securities. According to the European Sustainable Investment Fund (EUROSIF), the last two decades show clear signs that Socially Responsible Investment (SRI) is becoming an integral part of European fund management, while ESG integration, which remains by far the preferred strategy, has increased by 60% [1]. Responsible investment in ESG indicators is linked to Environmental, Social and Corporate Governance factors in order to make an investment and financial decision [2]. Over time, US and EU markets have fully integrated ESG indicators and it has even been observed that the stock returns of "sustainable companies" are higher than those that do not incorporate ESG indicators. In other words, more and more investors are turning to sustainable – social investments in which ESG principles have been fully adopted. Thus, socially responsible companies show greater profitability and better stock returns while at the same time ensuring their long-term viability and development [3].

The better performance of both companies and states in ESG issues leads to higher returns, but it also contributes to the existence of improved stock market performance and investors' credibility [4]. After all, investing in ESG contributes to the achievement of firms' goals and sustainable development [5]. In addition, studies have shown that companies that score highly on ESG metrics tend to have lower cost of capital, as investors perceive them to be less risky and more sustainable over the long term. This can lead to higher stock prices, improved financial performance, and a stronger competitive position in the market. From 2020, there is a shift towards investments made around environmental practices for development, social welfare, as well as corporate governance. The main reason contributing to the decisions for such investments concerns the investors' changed mentality who are not just interested in generating quick profit, but they look forward for long-term profit [6]. Moreover, they are interested in whether firms take into consideration green growth and sustainable investment. Due to the free mobility of funds and capital markets within Europe as a result of EU integration, it is observed that ESG information disclosure requirements are constantly increasing during the last years and it is expected to continue at an increased pace in the near future [7,8].

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Thus, companies that adopt practices regarding determination, measurement, management and disclosure will have the ability to respond immediately and quickly to regulatory changes as well as to the information needs of investors that are constantly increasing [9]. In addition, companies that perform efficiently in key ESG issues regarding their operation will have immediate access to lower-cost capital, strong operation results, higher stock returns, and long-term profitability. Moreover, full transparency and proper management in ESG issues can lead to a reduction of uncertainty and strengthening of investors' confidence [5]. As companies increase ESG factors and disclosure, firm value increases and the lack of ESG activities decreases it [10], while according to Wong et al. [11] , ESG disclosure enhances firm value, lowers cost of capital and increases firm's performance. Moreover, corporate governance concerns both firms and states, as it examines whether laws regarding taxation and investments are being implemented and whether there is transparency in any action undertaken [12]. At an international level, there is growing recognition of the importance of ESG issues and their potential impact on economic stability and growth. Many governments and regulatory bodies are introducing policies and frameworks to encourage companies to adopt more sustainable practices and disclose their ESG performance, which can help to create a level playing field for firms and promote sustainable economic development. The adoption of social, environmental and corporate indicators in capital markets tend to lead to sustainability and create positive outcomes to societies [13]. As it is can be understood, responsible and sustainable investment has invaded markets in a quite dynamic way, with ESG sectors gaining particular importance in investment activity [13].

The epicenter of sustainability's notion is the necessity to take into consideration the environmental, economic and social dimensions in development. Alternatively, sustainability secures that economic growth includes and motivates social and environmental factors [14]. Thus, no one can claim that sustainability is not necessary in the financial sector due to its core role in economic development [15]. Finally, for firms themselves, there is growing evidence that a strong commitment to ESG can lead to improved performance and profitability. This can be achieved through a range of mechanisms, including improved risk management, enhanced reputation and brand value, and increased innovation and efficiency. Many firms are often looking for ways to become more competitive against others performing in the same industry, taking advantage of every possible opportunity and facing every possible challenge [6]. ESG factors contribute to the measurement of the company's growth in a specific period and play a decisive role in the creation of the company's value in the long term. In other words, ESG indicators are inextricably linked to business competitiveness and the way firms manage them has financial consequences in a permanent way [2]. According to Albuquerque et al. [16], ESG factors can lead to an increase in corporate value since customers want to buy products or services from companies that have good reputation in issues of corporate responsibility, while employees working in such firms are more productive. Overall, the impact of investments in ESG on capital markets, international economies, and firms' performance is significant and growing, and is likely to continue to be a key driver of change in the years to come. Summing up, the issues of social welfare, environmental development and corporate governance are of prominent importance in investors' decisions since they aim to maximize both their shares value and social welfare by minimizing the negative effects of the environment.

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