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Doing good pays off: Environmentally and socially responsible companies drive value and market efficiency

Based on a global study of 2,636 firms across 31 countries, researchers from Kyushu University provide scientific evidence of the economic benefits of environmental, social, and governance (ESG) practices.

Fukuoka, Japan—This year marks the 20th anniversary of the Principles for Responsible Investment (PRI), launched with United Nations backing in 2006. Today, environmental, social, and governance (ESG) related non-financial information—such as greenhouse gas emissions, pollution control, and diversity metrics—is routinely analyzed alongside traditional financial data.

As companies scale up their ESG commitments, core questions remain: do these efforts create extra value, and how do they affect capital markets?

A study published on January 8, 2026, in *Business Strategy and the Environment* offers new evidence from researchers at Kyushu University. The team finds that strengthening ESG disclosure and performance increases both a firm's intrinsic value and overall market efficiency.

"We focus on firms' intrinsic value, as it goes beyond short-term metrics like costs and profits to include future opportunities and risks," explains Xinyu Wang, a PhD student at Kyushu University's Graduate School of Economics and the paper's first author. "This offers a more stable measure of long-term value, which aligns with ESG's vision of sustainable value creation and a resilient global financial system."

Drawing on a global dataset spanning 2015 to 2022, the team analyzed 2,636 firms across 31 countries on six continents. The sample included companies from manufacturing, raw materials, services, ICT, and other sectors.

To assess intrinsic value, the researchers applied the Residual Income Model (RIM), which incorporates a company's book value and excess earnings. Based on this, they calculated misvaluation, as the ratio of intrinsic value to market capitalization, capturing how far stock prices deviate from their true worth.

The findings confirm that stronger ESG disclosure and performance correspond to higher intrinsic value, with ESG performance having a larger effect than disclosure alone.

"These results align with our theoretical analysis," says Wang. "For instance, signaling theory suggests that ESG disclosure reduces information asymmetry and perceived risk. Agency theory indicates that strong ESG performance often reflects more effective internal governance, strengthening trust among key stakeholders, including investors, customers, and employees."

"Investors care not only about the quantity of information, but also its quality," adds Jun Xie, Assistant Professor at Kyushu University's Urban Institute and a co-author of the study. "This highlights the need for companies to communicate their substantive progress honestly, rather than relying on promotional, greenwash-like messaging."

Beyond increasing intrinsic value, higher ESG practices also bring a firm's market price closer to its intrinsic value, correcting both overvaluation bubbles and undervaluation. By addressing information gaps that may mislead investors, ESG efforts enable stock prices to reflect firms' fundamental values more promptly and accurately, thereby enhancing capital market efficiency.

At a global level, however, ESG's impact is uneven. The effects are more pronounced in advanced economies, while remaining limited in developing ones.

With the upcoming adoption of the International Financial Reporting Standards (IFRS) sustainability disclosure system, publicly listed companies will be required to report ESG information under a unified framework. The researchers hope that broader implementation of standardized rules will expand the dataset to support more thorough cross-firm comparisons going forward.

"While creating economic, social, and environmental value, companies are also major consumers of resources and emitters of pollutants. Thus, ensuring a sustainable future requires shifting corporate actions toward sustainable practices," says Professor Hidemichi Fujii from Kyushu University's Faculty of Economics, Wang's academic supervisor. "Our goal is to provide scientific evidence by objectively clarifying the impact of ESG factors. We aim to contribute to policies that transform corporate practices based on these findings.."

Wang extends this perspective to the broader financial system, where ideally, information in capital markets should flow without distortion. "Research is only a vehicle," she reflects. "What I look forward to is a more efficient and sustainable world. A better understanding of ESG can help guide both markets and society toward that direction."

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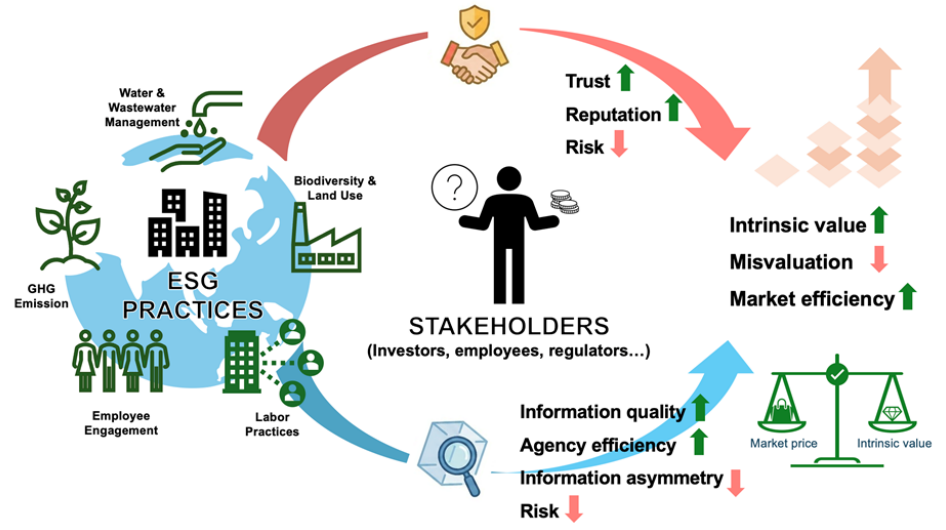
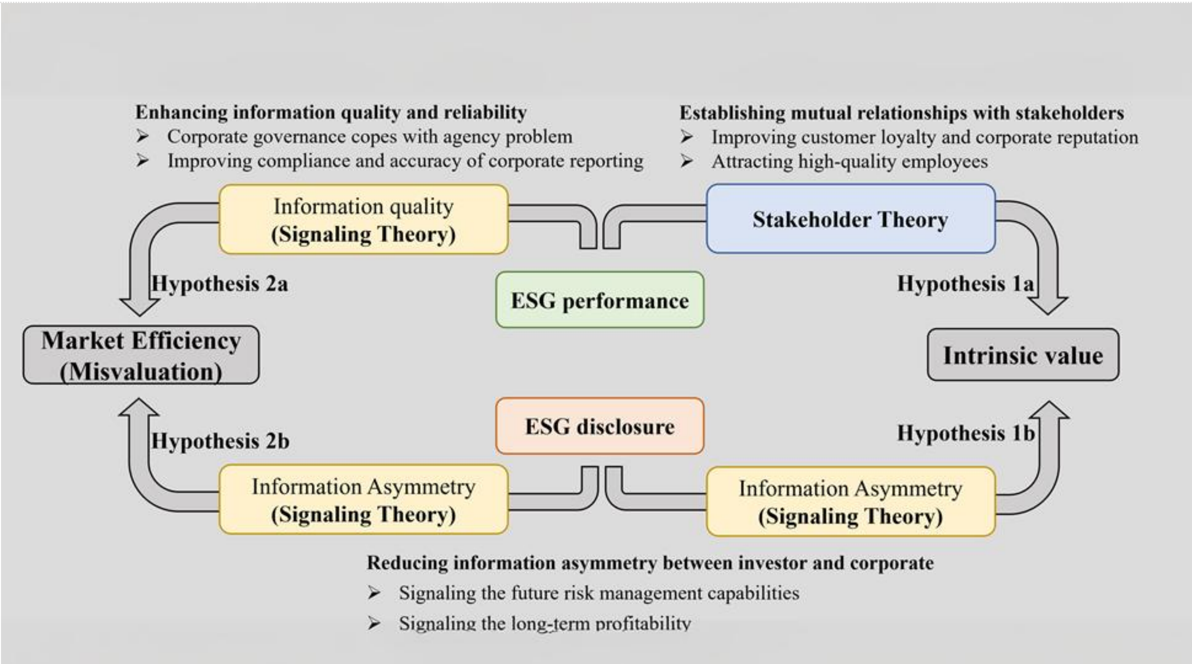
For more information about this research, see "Environmental, Social, and Governance Factors as Tools for Improving Market Efficiency: A Study on Equity Misevaluation," Xinyu Wang, Siyu Shen, Jun Xie, Hidemichi Fujii, Alexander Ryota Keeley, Shunsuke Managi, *Business Strategy and the Environment*, https://doi.org/10.1002/bse.70486

About Kyushu University
Founded in 1911, Kyushu University is one of Japan's leading research-oriented institutions of higher education, consistently ranking as one of the top ten Japanese universities in the Times Higher Education World University Rankings and the QS World Rankings. Located in Fukuoka, on the island of Kyushu—the most southwestern of Japan's four main islands—Kyushu U sits in a coastal metropolis frequently ranked among the world's most livable cities and historically known as Japan's gateway to Asia. Its multiple campuses are home to around 19,000 students and 8,000 faculty and staff. Through its VISION 2030, Kyushu U will "drive social change with integrative knowledge." By fusing the spectrum of knowledge, from the humanities and arts to engineering and medical sciences, Kyushu U will strengthen its research in the key areas of decarbonization, medicine and health, and environment and food, to tackle society's most pressing issues.



Beyond traditional financial information, corporate ESG practices—such as carbon emissions, wastewater management, and employee diversity—have become increasingly critical factors for investors. Findings from Kyushu University indicate that stronger ESG disclosure and performance can increase both a firm's intrinsic value and overall market efficiency.



Researchers at Kyushu University conducted a detailed theoretical analysis to explain how ESG disclosure and performance influence a firm's intrinsic value and market efficiency through different mechanisms. While signaling theory suggests that disclosure reduces information asymmetry for investors, stakeholder theory and others highlight how strong ESG performance can enhance a firm's reputation.

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