

ESG And Value Creation In Capital Markets: A Systematic Literature Review Of Investment Dynamics, Market Frictions, And Conflicting Evidence

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ABSTRACT

Environmental, Social, and Governance (ESG) has become an important factor in investment decision-making in capital markets, but empirical findings on its influence on value creation still show mixed results. This study aims to examine the relationship between ESG and value creation by emphasizing the role of investment dynamics, market frictions, and inconsistencies in empirical findings. The study uses the Systematic Literature Review (SLR) method based on the PRISMA 2020 guidelines, applied to reputable scientific articles indexed in Scopus Q1 and Q2 for the 2022–2026 period. Data were analyzed using thematic analysis, comparative analysis, and conceptual synthesis. The results show that ESG generally contributes positively to value creation through improved corporate reputation, investor trust, and firm performance. However, this relationship is influenced by investment dynamics, investor behavior, and market frictions, such as information asymmetry, differences in ESG assessment, greenwashing, and regulatory differences.

Keywords: capital market, ESG, investment dynamics, market frictions, value creation.

1. INTRODUCTION

The evolution in the global business world in recent years has shown a shift in the corporate paradigm from focusing on profit only to paying more attention to sustainability aspects and corporate social responsibilities. Itan et al. (2025) explained that the integration of Environmental, Social, and Governance (ESG) in the capital market has grown rapidly in response to increasing regulatory pressures, transparency demands, as well as the investors' need for non-financial information relevant to assessing investment risks and opportunities. In this context, ESG is no longer considered an additional element, but rather as a fundamental part of the value creation process in capital market. This is supported by the study of Tang & Luo (2026) who showed that ESG has significant economy relevance in assessing corporates, especially through disclosure mechanisms and risk perceptions that can affect the market valuation.

Nevertheless, Prayogo et al. (2026) indicate that the relationship between ESG and value creation still shows inconsistent result (conflicting evidence). In line with this, Hamdouni (2025b) and Seok et al. (2024) state that disclosure and good ESG performance have positive impact on the corporate value. However, Widiyanti et al. (2025), Kiran et al. (2024), and Ma & Ma (2025) present different results, showing ESG does not always significantly impact the corporate value, especially amid ESG controversies and organizational frictions that trigger investors' negative reactions.

Furthermore, Pan & Jia (2026) show that the existence of market frictions such as regulatory fragmentation, ESG rating divergence, and information asymmetry can weaken ESG's effectiveness in creating value in capital markets. This is corroborated by Tian et al. (2025) who identify that ESG rating divergence is one of the main sources of friction in capital markets and contributes to market uncertainty and inefficiency.

On the other hand, Alves et al. (2025) reveal that even though ESG implementation is going well, systemic frictions like regulatory differences and limitation of global standards can slow down value creation. Therefore, ESG's effect on value creation does not only rely on corporate practices, but also investor behavior and market dynamics.

From a theoretical perspective, this condition reflects an imbalance between theoretical framework used to explain the relationship between ESG and value creation. Within the framework of signaling theory, Wu & Lin (2026) state that ESG disclosure functions as a positive signal that can reduce information asymmetry and increase investor trust. However, Viona et al. (2025) show that the existence of greenwashing and symbolic compliance can destroy the credibility of that signal.

Besides, from methodological perspective, the literature also shows a significant gap. Some studies show that research about ESG through systematic literature review is still dominated partial discussions about ESG and risk, ESG and disclosure or ESG and sustainability (Tamasiga et al., 2024 ; Cippiciani et al., 2025). In conclusion, these studies cannot provide a holistic synthesis about how ESG contributes to value creation in the context of capital markets and no comprehensive synthesis of ESG's role on value creation in capital market.

Overall, there is still a research gap in systematic literature review which integrates the relationship among ESG, value creation, investment dynamics and market frictions comprehensively. Therefore, this research aims to fill the gap by presenting a more integrated literature synthesis on the mechanism of ESG-based value creation in capital markets.

1.1. Research Questions

To provide a more structured understanding of the research title **“ESG and Value Creation in Capital Markets: A Systematic Literature Review of Investment Dynamics, Market Frictions, and Conflicting Evidence”**, this study seeks to answer the following research questions:

- RQ1 = How does Environmental, Social, and Governance (ESG) affect value creation in the capital market based on existing empirical evidence?
- RQ2 = Why do empirical research results show conflicting evidence in the relationship between ESG and value creation in the capital market?
- RQ3 = How do investment dynamics and investor behavior mechanisms explain the relationship between ESG and value creation in capital markets?

RQ4 = How do market frictions (such as information asymmetry, differences in ESG assessments, and regulatory differences) affect the relationship between ESG and value creation in capital markets?

RQ5 = To what extent are existing theories (such as stakeholder theory, signaling theory, and behavioral finance) able to explain the relationship between ESG and value creation in the capital market?

2. METHODS

Kitchenham et al. (2007) explain that a Systematic Literature Review (SLR) is a systematic, transparent, and replicable method for identifying, evaluating, and synthesizing relevant research findings within a field of study. In line with this, Snyder (2019) states that a Systematic Literature Review (SLR) is used to integrate various studies and identify research gaps. Therefore, this study uses an SLR approach to examine the relationship between ESG and value creation in the capital market.

Following Haddaway et al., (2022) this study adheres to the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) guidelines to ensure a transparent literature selection process. The stages carried out include identification, screening, eligibility, and inclusion, with literature searches conducted across the Scopus, ScienceDirect, ProQuest, and Springer Nature databases. The search strategy was developed using a combination of keywords and Boolean operators, such as (*“ESG” OR “Environmental Social Governance”*) AND (*“value creation” OR “firm value” OR “stock return”*) AND (*“capital market” OR “investment” OR “investor behavior”*),

Deirmentzoglou et al. (2026) emphasize that in an SLR, inclusion and exclusion criteria must be clearly defined to maintain the quality and relevance of the literature. Therefore, this study only includes international journal articles that have undergone peer review, are written in English, were published within the last five years (2022–2026), and are indexed in Scopus (Q1 & Q2). This study limits the analyzed literature to publications from the past five years as it aims to capture the most recent developments in the fields. The restriction ensures that the synthesized findings reflect the current scientific landscape, research methods, and empirical context relevant to recent developments. Moreover, the use of recent literature helps minimize the risk of relying on evidence that is no longer consistent with present conditions. Articles that are not relevant to the focus on ESG and value creation in the capital market, are not empirical, or do not have full-text access will be excluded from the analysis. The selection process was conducted in stages: (1) identification and screening using Rayyan, and (2) eligibility assessment and inclusion by reading the full text of each screened article, following the PRISMA flow, to ensure that only relevant and high-quality studies were included in the analysis.

Following Raihan & Sarker (2026), the data extraction process was carried out systematically to support comparative analysis. The extracted data included ESG variables, value creation indicators, research findings, investment dynamics, market frictions, and the theoretical framework used. The data were then coded to facilitate thematic analysis and comparison across studies.

Next, Shin & Lee (2026) mention that thematic analysis was used to identify patterns and themes in the literature by grouping findings into categories of positive, negative, and insignificant effects between ESG and value creation. Comparative analysis was then conducted to compare research results by sector, region, and research method in order to identify the sources of inconsistency in the findings.

Furthermore, Deirmentzoglou et al. (2026) mention that conceptual synthesis was used to integrate various empirical findings and to construct a conceptual framework explaining the relationship between ESG, investment dynamics, market frictions, and value creation. With this approach, the study not only describes the findings but also provides a more comprehensive analysis of the relationships among the variables. The results of the PRISMA flow diagram are as follows:

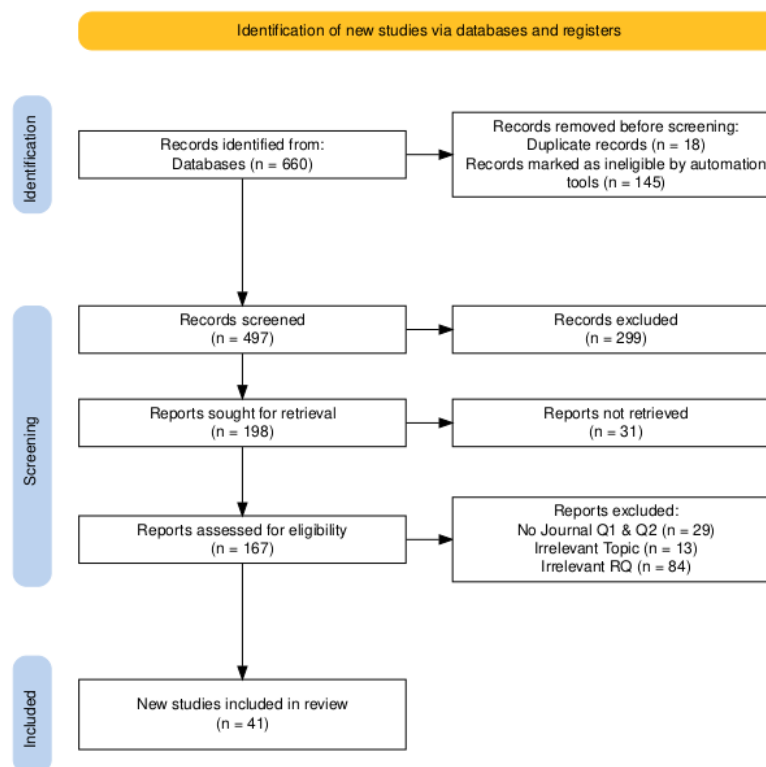


Figure 1. PRISMA Flowchart Search Method

3. RESULTS AND DISCUSSIONS

3.1. Results

Table 1: Results of Previous Research Reviewed

No	Author's Name (Year)	Research Title	Method	Results
The Positive Influence of ESG on Value Creation				

No	Author's Name (Year)	Research Title	Method	Results
1	Leonardo Becchetti, Doriana Cucinelli, Federica Ielasi, & Monica Rossolini (2023)	<i>Corporate social irresponsibility: The relationship between ESG misconduct and the cost of equity</i>	Use of the Rep Risk Index (RRI) and Gordon's equity cost estimation model.	Irresponsible behavior (CSI) covered by negative media increases risk perception and directly raises the cost of a company's equity, proving that ESG reputation is a key driver of value creation through risk reduction.
2	Andreas G. F. Hoepner, J. L. C. Schopohl, & T. S. S. Thomae (2025)	<i>Strategic or passive? Voluntary ESG disclosure and corporate bond issuances</i>	Quasi-experimental design, probit regression model, and Heckman selection model on the primary bond market.	Companies strategically increase ESG disclosures before issuing bonds to reduce funding costs (bond spreads), which supports a signaling theory in which ESG information is used to address information asymmetry.
3	Prachi Jain & Priya Malhotra (2026)	<i>Exploring the connection between environmental, social, and governance (ESG) disclosures and dividend policy: a meta-analysis</i>	A meta-analysis of 35 research studies covering 55 measures of the effects of the ESG-Dividend relationship.	There is a significant positive relationship between ESG disclosure and dividend policy. The inconsistency of previous findings was influenced by moderating factors such as company size, publication quality, and the country's legal environment.
4	Nan Wu & Boqiang Lin (2026)	<i>The response of institutional investors' shareholding preferences to green information disclosure</i>	Panel two-way fixed effects model and mediation analysis (Sobel Test).	Institutional investors have a strong preference for green disclosure because it is perceived to increase the company's value (Tobin's Q) and profitability (ROA), which triggers an increase in their shareholding.
5	Hayam Wahba & Heba B. Hathout (2026)	<i>Do board characteristics moderate the relationship between ESG and financial</i>	Dynamic GMM regression (Two-Step System GMM) in 147 companies in Africa.	ESG performance contributes positively to a company's value (Tobin's Q). Board characteristics such as independence and board size reinforce this relationship, which is in line with Stakeholder Theory

No	Author's Name (Year)	Research Title	Method	Results
		<i>performance? Evidence from African listed companies</i>		where good governance maximizes the value of ESG.
6	Junhee Seok, Yanghee Kim, & Yun Kyung Oh (2024)	<i>Environmental, social, and governance (ESG) performance and firm value: The role of customer satisfaction</i>	Panel regression analysis with fixed effects in US companies for the period 2011–2020.	ESG as a whole, as well as the Environmental and Governance pillars, have a significant positive effect on the company's value (Tobin's Q). This dynamic is explained by the customer satisfaction mechanism (ACSI) which is the mediator; Good ESG performance increases customer satisfaction, which in turn creates long-term value for the company.
7	I.-M. García-Sánchez, N. Hussain, C. Aibar-Guzmán, & B. Aibar-Guzmán (2025)	<i>ESG controversies and sustainability assurance</i>	Regression panel data with fixed and random effects on 1149 multinational companies.	The ESG controversy encourages companies to use sustainability insurance services to protect their reputation and market value. Using Stakeholder Theory and Legitimacy Theory, this study shows that insurance has a positive impact on corporate image and company value.
8	Paola Ochoa-Marquez & Christina J. Gehrke (2026)	<i>Financial Payoff of Sustainability in Mexican Companies: ESG Performance, Profitability and Firm Value</i>	The design of the correlational quantitative research uses Refinitiv Eikon data (2019-2023).	In emerging markets (Mexico), ESG scores are positively and significantly related to company value and profitability. This supports empirical evidence that ESG investments create real financial returns.
9	T. Ding, Y. Zhou, & L. Chen (2025)	<i>Non-Financial Factors and Financial Returns: The Impact of Linking ESG Metrics to</i>	Analysis of panel data on A-share companies in China (2012-2022).	Describe the internal mechanisms by which ESG creates value through incentives. Linking ESG metrics with executive compensation significantly improves a company's

No	Author's Name (Year)	Research Title	Method	Results
		<i>Executive Compensation on Corporate Financial Performance</i>		financial performance (ROA, ROE, ROIC).
10	Darryl Philip Rakiman, Eric Wilson, Steven Wahyudi, & Rita Juliana (2026)	<i>Geopolitical Risk and Firm Financing Decision: Can ESG Performance Act as a Buffer?</i>	Regression analysis in companies in Indonesia.	ESG performance acts as a "buffer" against geopolitical risks. External friction in the form of political risks can be mitigated by strong ESG performance, which in turn stabilizes the company's value.
11	Amina Hamdouni (2025b)	<i>Value Creation Through Environmental, Social, and Governance (ESG) Disclosures</i>	Regression Panel (Fixed Effect Model with Driscoll–Kraay standard errors)	Found that ESG scores have a positive and significant effect on value creation (Tobin's Q, ROA, ROE). A high ESG score provides a sustainability signal that increases the company's value.
12	Amina Hamdouni (2025a)	<i>AI, Sustainability and Value Creation: Empirical Insights from Saudi Banks (2015–2024)</i>	Robust panel regression (POLS, Fixed Effects, GMM) and Dumitrescu–Hurlin panel causality test.	Responsible AI adoption is significantly positively correlated with value creation (Tobin's Q, ROA, ROE) and sustainability performance (ESG score) in Saudi banks. This research expands the Resource-Based View (RBV) by positioning AI capabilities as a strategic asset for operational efficiency and Stakeholder Theory in aligning interests through AI transparency.
13	Po-Yuan Shih, Ai-Chi Hsu, Chia-Cheng Chen, Dong-Her Shih, & Ming-Hung Shih (2026)	<i>Win-Win or Laissez-Faire? Benchmarking Sovereign ESG Efficiency in OECD Countries</i>	Two-stage Data Envelopment Analysis (DEA) and fractional logit regression.	Showing the efficiency of the country in converting economic resources (GDP/trade) into ESG results. Government effectiveness was identified as the main positive driver of ESG transformation efficiency, while high income (GDP

No	Author's Name (Year)	Research Title	Method	Results
		<i>Using Two-Stage DEA</i>		per capita) actually had a negative relationship if it was not accompanied by institutional quality. Using quartile-based classifications (Win-Win, Inactive, Laissez-faire) as an integration model.
Inconsistence Results				
14	Thanh Nam Vu, Heikki Lehkonen, Juha-Pekka Junttila, & Brian Lucey (2025)	<i>ESG investment performance and global attention to sustainability</i>	Fixed-effect firm panel regression using daily yield data and global sustainability attention.	ESG investment performance is dynamic; The abnormal returns of ESG stocks are greatly influenced by the intensity of media/global attention. This explains why empirical evidence is often inconsistent because it depends on the period of public attention.
15	Christel Dumas, Céline Louche, dan Rebecca Bednarek (2025)	<i>The Business–Social Paradox of ESG Investing: Responding to Persistent Tensions over Time</i>	A longitudinal study for 32 months used observations and interviews with institutional investors (Project Delphi).	ESG investing is a paradox that involves the constant tension between measurement (hard data vs. expert judgment), resource efficiency, and temporality (short vs. long term), which are often intertwined (knotted) and difficult to separate.
16	Madiha Kiran, Sumayya Chughtai, & Muhammad Abubakr Naeem (2024)	<i>Greenwashing and corporate financial performance: The moderating role of family control and technology innovation</i>	Method of Moments Quantile Regression (MMQR) in companies in 42 countries.	Found that greenwashing can paradoxically improve financial performance (ROA, TQ), but the results are inconsistent across different quantities. Market frictions such as family control and technological innovation modernize this relationship, explaining why empirical evidence is often conflicting.
17	Leyla Yusifzada, Igor Lončarski,	<i>The performance of environmental</i>	Monthly time series regression analysis	The performance of the Social pillar shows the transition from "social

No	Author's Name (Year)	Research Title	Method	Results
	Gergely Czupy, & Helena Naffa (2025)	<i>and social leaders and laggards: Evidence from a global sample</i>	using the Fama- French five-factor model.	discount" to "social premium" throughout the 2013–2022 period. This explains the inconsistency of the findings due to changes in investor expectations and market dynamics over time.
18	Rómulo Alves, Philipp Krüger, & Mathijs van Dijk (2025)	<i>Is ESG performance a priced risk factor? Global evidence</i>	Fama-MacBeth regression and value-weighted portfolio sorts on global data (2001– 2020).	Found that the size of the effect of ESG on stock returns was very small or close to zero after controlling for standard risk factors. This answers that ESG may not be a significantly priced risk factor in global capital markets, so the results are often insignificant.
19	Banerjee, S., Mitra, A., & Aggarwal, S. (2025)	<i>Impact of Environmental, Social, and Governance Parameters on Financial Performance of Firms: A Cross- Country Analysis</i>	Regression of cross- country data panels.	Provide cross-country evidence that certain ESG pillars have a different impact on financial performance. This explains why empirical findings are often inconsistent (conflicting evidence) depending on the geography of the sample.
20	Andriani, Ashfa Fikriyah & Trimurti Ningtyas (2026)	<i>Assessing the effect of green disclosure on profitability and firm value in Indonesian Islamic banks</i>	Path Analysis (Analisis Jalur)	Demonstrate inconsistencies where green disclosure increases company value through stakeholder perception and legitimacy, but does not necessarily increase short-term profitability (ROA/ROE does not mediate).
21	Fakhrul Indra Hermansyah, Anas Iswanto Anwar, Naufal Muhammad Aksah, Ihya'	<i>Does poor ESG performance still drive profitability? New evidence from Indonesia's SRI-</i>	Random Effects Model (REM)	Revealing the "ESG paradox" where companies with high ESG risk (poor performance) actually show higher profitability (ROA) in emerging markets due to weak regulatory enforcement.

No	Author's Name (Year)	Research Title	Method	Results
	Ulumuddin, Raehana Tul Jannah, Nur Rezky Amaliah & Andi Harmoko Arifin (2025)	<i>KEHATI listed firms</i>		
22	Andi Wijayanto & Fajar Supanto (2025)	<i>ESG Performance, Firm Value, and the Mediating Role of Financial Performance: Evidence from Top ESG Companies in the Largest ASEAN Economies</i>	PLS-SEM	Inconsistencies occur due to differences in capital market maturity. In Indonesia (emerging markets), ESG has a positive effect on value as a transparency signal, while in Thailand/Singapore (developed markets), ESG is already considered a common standard.
23	Oumaima Hamou, Mohamed Oudgou, dan Abdeslam Boudhar (2025)	<i>Analysis of the Effectiveness of Classical Models in Forecasting Volatility and Market Dynamics: Insights from the MASI and MASI ESG Indices in Morocco</i>	ARIMA, SARIMA, ARCH, GARCH, EGARCH, and GJR- GARCH.	Conflicting results arise because the classical model (ARIMA/GARCH) often fails to integrate the extra-financial dimension effectively, especially in ESG indices that are more sensitive to external shocks than general market indices. Market friction in the form of national policy uncertainty (such as the Green Morocco Plan) increases the volatility of ESG indices.
Market Friction				
24	Dan Luo & Hisham Farag (2024)	<i>ESG and aggregate isagreement</i>	Portfolio analysis and Fama–MacBeth regression (1973) on US, EU, and UK (2003–2020) stock data.	The aggregate disagreement among analysts explains the anomaly of ESG yields. ESG premiums are only significant when disagreement is high, suggesting that friction in the form of analyst disagreements triggers mispricing on high ESG stocks.

No	Author's Name (Year)	Research Title	Method	Results
25	Yuan Tian, Jie Feng, Jin Ma, & Yadong Wen (2025)	<i>ESG rating divergence and stock market mispricing: empirical evidence from China</i>	Regression of panel data with variable instruments and residual income (RIM) models in Chinese companies.	ESG rating divergences create a "noise effect" that increases information asymmetry and triggers mispricing, especially when the company's financial constraints are high.
26	Changqing Li & Yu Li (2025)	<i>Market competition, resource allocation and corporate ESG performance</i>	A multi-period difference-in-differences (DID) model on data from Chinese A-share companies.	Overly intense market competition can degrade ESG performance as companies are forced to divert resources to short-term survival, suggesting that market friction in the form of competition affects the allocation of sustainability value.
27	Louis T.W. Cheng, Jianfu Shen, & Piyush Sharma (2026)	<i>Demystifying the interactive impact of analyst certification and investor relations quality on media coverage and firm value</i>	The regression analysis used data from the Annual Investor Relations Awards in Hong Kong and media coverage from Ravenpack.	Local analyst certifications have a stronger direct effect on the company's value than international analysts in hybrid markets due to signal depth (contextual knowledge). It answers related information asymmetry and uses Signaling Theory.
28	Giulio Anselmi, & Giovanni Petrella (2025)	<i>ESG rating disagreement and stock returns</i>	Panel regression analysis used ratings from LSEG and Bloomberg (2010–2020).	Differences in valuations (disaggregated) between ESG rating providers create uncertainty for investors and negatively correlate with stock returns. Market friction in the form of divergence in valuation increases perceived risks and harms the company's valuation.
29	Lei Ruan, Jianing Li, & Siqi Huang (2025)	<i>ESG rating adjustment and asset mispricing</i>	Two-way fixed effects model and mediation effects testing.	The adjustment of the ESG rating is positively related to asset price mispricing. This friction is exacerbated by a decline in the quality of analyst predictions and an increase in information asymmetry due to drastic rating changes, which

No	Author's Name (Year)	Research Title	Method	Results
				disrupt the efficiency of pricing in the capital market.
30	Anis Shami (2025)	<i>Non-Financial Reporting, Double Materiality, and Business Model Evaluation: An Empirical Study of ESG Ratings in Europe</i>	Longitudinal and regression analysis of OLS in 366 European companies.	Explain market friction in the form of "rating divergence". The difference in methodology between rating agencies (MSCI, S&P, etc.) is due to how companies report double materiality and the non-financial reporting framework used.
31	Crecia Viona, Esthervany Anrika, Camilla Tiara Dewi, Fitriya Fauzi (2025)	<i>Green Bonds, Environmental, Social, and Governance Scores, and the Greenwashing Puzzle: Insights from the ASEAN Region</i>	Regression panel data on companies in the ASEAN region.	Highlighting market friction in the form of greenwashing. Although companies issue green bonds, low ESG scores or greenwashing behaviors can obscure the true value that investors receive in the capital markets.
32	Qiming Pan & Huiying Jia (2026)	<i>Does ESG Rating Divergence Underpin Market Reaction? Evidence from Corporate Financial Restatements</i>	Event Study (Cumulative Abnormal Return), OLS Regression	Explains that differences in ESG ratings (rating divergence) weaken the insurance-like effect of ESG performance when negative events occur. Market friction in the form of inconsistencies in information between rating agencies obscures the true quality of ESG in the eyes of investors.
33	Thi Hanh Dung Truong (2025)	<i>Environmental, social and governance disclosure and ownership structure: Evidence from ASEAN countries</i>	OLS, 2SLS	Found that ownership structures (ownership concentrations) are market frictions that moderate the relationship between ESG and company value. A high concentration of ownership can strengthen or weaken ESG disclosure incentives.

No	Author's Name (Year)	Research Title	Method	Results
34	Mohamed A. K. Basuony, Mohammed Bouaddi, Hoda El Kolaly, Maha ElShinnawy, & Rehab EmadEldeen (2026)	<i>When Leadership Meets Worldwide Governance: The Role of CEO Characteristics in Environmental, Social, and Governance Performance</i>	Regime/smooth transition approach (PSTR) with STOXX Europe 600 company panel data.	CEO demographic characteristics (age, gender) more consistently affect ESG than cognitive characteristics. Female CEOs increase ESG only in environments with strong governance. Regulatory friction is explained through the moderation of Worldwide Governance Indicators (WGIs); weak state governance can reverse the positive influence of leadership characteristics on ESG.
35	Riccardo Censi, Paola Campana, Francesco Bellini, Fulvio Schettino, & Chiara De Pucchio (2025)	<i>AI-Driven Process Mining for ESG Risk Assessment in Sustainable Management</i>	Business Process Model and Notation (BPMN), Machine Learning, and Robotic Process Automation (RPA).	Market friction due to information asymmetry and fragmented data can be reduced through dynamic data collection automation (Web Scraping) to improve the accuracy of ESG risk assessments. Develop an integrated digital framework that connects data acquisition, risk weighting, and process optimization in one continuous workflow.
Investment Dynamics & Behavioral Mechanisms				
36	Guoqing Chen & Qianqian Wang (2025)	<i>ESG rating disagreement, market information efficiency and institutional investor shareholding behavior</i>	Panel regression analysis and analysis of market information efficiency mechanisms.	Disagreements over ESG ratings hamper institutional investor ownership due to information uncertainty. However, the high efficiency of market information can mitigate these negative impacts, helping investors process confusing signals.
37	Mohammadali Fallah, Sulei	<i>Forecast Bias in Analysts' Initial</i>	OLS regression with analyst-firm-quarter	Using behavioral finance theory, this study proves that high ESG

No	Author's Name (Year)	Research Title	Method	Results
	Han, & Le Zhao (2025)	<i>Coverage: The Influence of Firm ESG Disclosures</i>	observations (631,660 observations).	disclosures reduce analysts' cognitive biases (such as herding). Analysts tend to provide more optimistic and accurate price targets when companies have strong ESG signals.
38	Ngoc Phu Tran, Ariful Hoque & Thi Le (2025)	<i>ESG Signals, Investor Psychology and Corporate Financial Policy: A Bibliometric Study</i>	Bibliometric Analysis, Science Mapping (VOSviewer)	Identifying that investor sentiment and behavioral finance are central factors that explain yield deviations. ESG signals interact with investor psychology in determining corporate financial policy.
39	Hua Guo & Jiayao Hong (2026)	<i>Exploring and Examining an Investor-Oriented ESG Intelligence Transformation Model: Insights from Chinese Analyst Reports</i>	Qualitative Content Analysis, Cohen's Kappa	Develop a conceptual framework that integrates the ESG information chain from the data layer, information layer, to the intelligence layer to help investors make decisions based on the analysis of analyst reports.
40	Piyush Choudhary, Nikunj Kumar Jain, & Pratyush Yadav (2025)	<i>Advancing green business expansion through strategic mergers and acquisitions leveraging sustainability and government policy for enhanced innovation and resilience</i>	Four-quadrant analysis model (M&A-ESG Fit Matrix, Capital Allocation Heatmap, IRR-ESG Frontier Graph, and Policy Roadmap Timeline).	Green M&A has proven to result in a valuation premium and abnormal positive stock returns compared to conventional transactions. Investment dynamics are explained through the Capital Allocation Index (CAI) which adjusts capital allocation based on the potential for an increase in ESG score (Δ ESG). Develop a 6-step GEM (Green Evaluation & Management) framework to balance financial discipline (IRR) with sustainability impacts.

No	Author's Name (Year)	Research Title	Method	Results
41	Tafdil Husni, Rida Rahim, Sari Mardiani, & Rizki Fadhel Dwipananda (2026)	<i>When Risk Meets Confidence: How ESG and Innovation Shape Corporate Finance in Emerging Markets</i>	Panel data regression, Baron & Kenny's mediation test, and ESG moderation analysis.	ESG reinforces the positive relationship between geopolitical risk (GPR) and leverage, allowing companies to use their sustainability reputation as social capital for cheaper debt access in times of crisis. The inconsistency of stock returns is explained by the speculative behavior of investors in ASEAN markets who exploit policy volatility for short-term gains. The behavioral mechanism is indicated by managerial overconfidence that increases the use of debt.

Source: reputable academic databases Scopus, ScienceDirect, ProQuest, and Springer Nature

The following are the results of previous research answering the five research questions (RQ) regarding the relationship between Environmental, Social, and Governance (ESG) and value creation in the capital market.

3.3.1. The Influence of ESG on Value Creation in the Capital Market

In general, most studies show that ESG has a positive effect on corporate value creation in the capital market. ESG increases firm value through improved profitability, Tobin's Q, reduced cost of capital, enhanced reputation, and greater investor trust. (Becchetti et al., 2023; Choudhary et al., 2025; Ding et al., 2025; García-Sánchez et al., 2025; Hamdouni, 2025a, 2025b; Hoepner et al., 2025; Ochoa-Marquez & Gehrke, 2026; Rakiman et al., 2026; Seok et al., 2024; Wahba & Hathout, 2026; Wu & Lin, 2026).

However, some studies have found that the effect of ESG on stock returns is relatively small or not even significant at all after accounting for market risk factors (Alves et al., 2025). In fact, under certain conditions, companies with low ESG performance are still able to achieve high profitability (Hermansyah et al., 2025).

3.3.2. Why is the relationship between ESG and value creation not always consistent?

The research results show that the inconsistencies are mainly caused by differences in market conditions, sample characteristics, research timing, ESG measurement methods, and

the institutional environment. Public attention to sustainability issues changes over time, thereby affecting ESG returns (Vu et al., 2025; Yusifzada et al., 2025).

In addition, factors such as firm size, publication quality, legal systems (Jain & Malhotra, 2026), country differences (Banerjee et al., 2025; Wijayanto & Supanto, 2025), greenwashing (Kiran et al., 2024; Viona et al., 2025), weak regulation (Hermansyah et al., 2025), limitations of measurement models (Hamou et al., 2025), and the ESG-investing paradox (Dumas et al., 2025), also help explain why previous research findings often show conflicting evidence.

3.3.3. The Role of Investment Dynamics in Value Creation

The relationship between ESG and value creation is influenced by investment dynamics and investor behavior. Institutional investors tend to increase their shareholdings in companies with better ESG disclosure and green information, as these are perceived to be capable of increasing firm value (Wu & Lin, 2026).

Conversely, disagreement in ESG ratings reduces institutional investors' interest due to increased information uncertainty (Chen & Wang, 2025). Public attention to sustainability issues (Vu et al., 2025), investor psychology and sentiment (Tran et al., 2025), the reduction of analyst bias through ESG disclosure (Fallah et al., 2025), customer satisfaction as a value-creation mechanism (Seok et al., 2024), green merger and acquisition strategies (Choudhary et al., 2025), as well as investors' speculative behavior and managerial overconfidence in emerging markets (Husni et al., 2026), are important factors in explaining how ESG creates value in the capital market.

3.3.4. Market Friction as an Explanation for Conflicting Evidence

Market friction is a major factor affecting the effectiveness of ESG in creating firm value. Analyst disagreement leads to mispricing in ESG stocks (Luo & Farag, 2024), while differences in ESG ratings increase information asymmetry and stock price misvaluation (Anselmi & Petrella, 2025; Pan & Jia, 2026; Ruan et al., 2025; Shami, 2025; Tian et al., 2025). Market information efficiency is able to reduce these negative effects (Chen & Wang, 2025).

In addition, market competition (Li & Li, 2025), ownership structure (Truong, 2025), geopolitical risk (Rakiman et al., 2026), the quality of national governance (Basuony et al., 2026; P. Y. Shih et al., 2026), national policy uncertainty (Hamou et al., 2025), and ESG data fragmentation (Censi et al., 2025), also influence the relationship between ESG and firm value creation.

3.3.5. Integration of Theoretical Perspective

Previous studies show that no single theory can fully explain the whole relationship between ESG and value creation. Stakeholder Theory explains that ESG creates value through strengthening relationships with stakeholders, good corporate governance, legitimacy, and customer satisfaction (Andriani et al., 2026; García-Sánchez et al., 2025; Seok et al., 2024; Wahba & Hathout, 2026). Signaling Theory explains that ESG disclosure gives a positive

signal to investors thereby reducing information asymmetry and funding (Cardillo & Basso, 2025; Cheng et al., 2026; Hamdouni, 2025b; Hoepner et al., 2025).

Meanwhile, Behavioral Finance explains that investor's psychology, attention towards ESG issues, and analyse bias influence market response towards ESG's information (Fallah et al., 2025; Luo & Farag, 2024; Tran et al., 2025; Vu et al., 2025).

Besides that, the Resource-Based View is used to explain value creation through AI capability and sustainability (Hamdouni, 2025a), while the concept of ESG investment paradox explain that there is a tension between social and financial goals (Dumas et al., 2025).

3.2. Discussion

The synthesis results show that Environmental, Social, and Governance (ESG) generally contributes positively to firm value creation through increased reputation, reduced risk, and greater investor trust. These findings support Stakeholder Theory, which explains that meeting the interests of stakeholders can create long-term value, as well as Signaling Theory, which views ESG disclosure as a positive signal that reduces information asymmetry.

Nevertheless, the relationship between ESG and value creation has not shown any consistent results. These differences are influenced by the variation of ESG measurement methodologies, regulatory quality, market characteristics, as well as greenwashing practices and differences of ESG ratings. This condition shows that the effectiveness of ESG depends on the institutional context and quality information available in the market.

In addition, this study finds that ESG does not create value directly, rather through investment dynamics and investor behavior. Investor preference for sustainable companies can increase firm valuation, whereas market frictions, such as information asymmetry and ESG rating divergence, can weaken this process. These findings also support the Behavioral Finance perspective, which explains that investor responses to ESG information are influenced by market sentiment and perception.

Overall, this study shows that the relationship between ESG and value creation is the result of an interaction between the quality of ESG implementation, investor behavior, investment dynamics, and market conditions. Therefore, integrating Stakeholder Theory, Signaling Theory, and Behavioral Finance provides a more comprehensive explanation of the various empirical findings that still show conflicting evidence.

4. CONCLUSION

This study concludes that Environmental, Social, and Governance (ESG) generally contributes positively to value creation in the capital market through improved corporate reputation. However, this relationship is not always consistent, as it is influenced by investment dynamics, investor behavior, and various market frictions such as information asymmetry, differences in ESG assessment, greenwashing, ownership structure, and regulatory differences. The findings also show that the relationship between ESG and value creation cannot be explained by a single theory alone, instead the integration of Stakeholder Theory, Signaling Theory and Behavioral Finance is required to provide a more comprehensive understanding.

Theoretically, this study enriches ESG literatures by offering a synthesis that integrates various theoretical perspectives, thereby helping to explain the inconsistencies in empirical findings regarding the relationship between ESG and value creation. Practically, the findings of this study have implications for companies in improving the quality of ESG implementation as well as disclosure, for investors as a basis for evaluating ESG information more comprehensively, and for regulators in promoting the harmonization of ESG reporting and assessment standards in order to improve market efficiency and reduce information asymmetry.

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