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CONTENTS

Feature Articles

This month's focus: **"Environmental, Social and Governance (ESG) Issues in Investing"**

Environmental, social, and governance (ESG) investment is expanding worldwide, mainly by institutional investors that have signed 'Principles for Responsible Investment' (PRI). At the core of this expansion are asset owners, whose investment beliefs, policies, and activities have a strong impact on market participants.

Market factors and changing perceptions, including the increasing recognition of factors related to ESG investment, including the benefits of ESG in the investment decision-making process, continue to progress in Japan. The enactment of the stewardship code (norm) has also helped to expand ESG investment. This paper discusses trends and future developments of international ESG investment.

There has been much debate on whether or not corporate social responsibility (CSR) enhances firm value. This study revisits this question by focusing on agency conflicts between managers and shareholders. The results show that corporate social performance (CSP) is positively associated with the value of firms in which agency problems are less severe, whereas CSP is negatively related with firm value when managers are more likely to be entrenched and invest in CSR for their own reputation at the expense of shareholders. Overall, our findings suggest that CSR has a value-enhancing effect under certain circumstances where managers are disciplined not to waste shareholders' resources.

This paper investigates the relationship between environmental, social, and governance (ESG) factors and the crash risk of Japanese firms, following Kim *et al*. [2014], who found that the effect of corporate social performance (CSR) mitigated firms' future stock price crash risk by substituting for a firm's weak governance mechanism. We find from our regression analysis that firms with low ESG scores have a higher crash risk. Moreover, the crash risk of these firms is negatively associated with the level of foreign ownership. While low ESG scores are closely related with the non-disclosure