

ABSTRACT

Since the COVID-19 pandemic caused a worldwide stock market catastrophe, the trend of ESG investing has increased in recent years, specifically for Asian markets. However, there has been relatively little study conducted on the Asian market, thus we would like to conduct more. Moreover, in Asia, political instability could have an impact on the significance of ESG, like the protest that occurred in Hong Kong prior to COVID-19. It also impacts the economy's functioning. To determine whether ESG score is more important to stock performance during a crisis, we additionally consider country characteristics.

Our study found that overall ESG scores protect stocks from idiosyncratic volatility in the 11 Asian markets, particularly in Korea. However, when examining individual ESG factors, we found that environmental (E) factors protect stocks from idiosyncratic volatility in Hong Kong and Korea. We also found that increasing ESG scores led to higher CARs in China but lower CARs in Japan, with governance (G) playing a significant role in increasing CARs in both countries.

Furthermore, high ESG score companies performed well in countries with low human development, transparency, and democracy, particularly in terms of social (S) factors in low transparency countries. Conversely, high ESG score companies performed better with higher governance (G) performance in countries with high human development and transparency. Lastly, our analysis showed that the combination of E and S factors had a significantly negative impact on both CARs and idiosyncratic volatility during the crisis.

Overall, our study supports the idea that a focus on ESG factors can lead to more stable outcomes in the face of uncertainty, particularly in Asian markets where political instability can impact the economy's functioning. Our findings also highlight the importance of considering individual ESG factors and country characteristics when evaluating the impact of ESG on stock performance during a crisis.

Keywords: CSR; COVID-19; financial markets; ESG; Asia