

Environmental, Social and Governance (ESG) Evaluation and Organizational Attractiveness to Prospective Employees: Evidence from Japan

Naoko Nemoto, Waseda University

Lian Liu, Asian Development Bank Institute

Abstract

This study hypothesized that firms' Environmental, Social and Governance (ESG) evaluation is related positively to their attractiveness to prospective employees. Although growing number of researches have been focusing on relations between ESG evaluation and corporate financial performance, few researches have investigated the link between ESG evaluation and corporate attractiveness as employers.

Results indicate ESG evaluation is related to firms' attractiveness to employees, suggesting that a firm's high ESG scores may provide a competitive advantage in attracting human talents and enhancing corporate value. This result is supported by the existing theories, namely signaling theory and social identity theory.

Regarding the impact of ESG component, the study shows E(environment) and S(social) factors have significant positive impact on attractiveness of larger firms, while G(governance) is most relevant factor for smaller firms.

The results of this study have implications for the strategies of corporate management. Improving ESG evaluation will support the organizations to appeal to potential employee and secure sustainable growth. With the current labor shortage in some sectors, attracting top-quality young applicants is becoming increasingly important for organizational success in Japan. The findings could also be useful for investors who adopt ESG factors in decision making.

Keywords: ESG Investment, Corporate value, Corporate brand