

Dissecting ESG: The Impact of Environmental, Social, and Governance Factors on Stock Price Risk in European Markets

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Abstract : This study investigates the complex relationship between corporate ESG (Environmental, Social, Governance) performance and stock price risk within the European market context. By analyzing a dataset of 435 companies across 19 European countries, the research assesses the impact of both combined ESG performance and its individual components on various risk measures, including volatility, idiosyncratic risk, systematic risk, and downside risk. The findings reveal that while overall ESG scores do not significantly influence stock price risk, disaggregating the ESG components uncovers significant relationships. Governance practices are shown to consistently reduce market risk, positioning them as critical in risk management. However, environmental engagement tends to increase risk, particularly in times of regulatory shifts like those introduced in the EU post-2018. This research provides valuable insights for investors and corporate managers on the nuanced roles of ESG factors in financial risk, emphasizing the need for careful consideration of each ESG pillar in decision-making processes.

Keywords : ESG performance, ESG factors, ESG pillars, ESG scores

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