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Role of ESG Ratings in Shaping Investment Attractiveness: Insights from BRICS Countries

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Abstract

The research objective is to analyze the impact of ESG ratings on the investment attractiveness of companies in BRICS countries in comparison with other countries, as well as to study the sectoral specifics of such influence in BRICS countries. The methodology is based on the regression analysis of the impact of ESG ratings and the duration of their disclosure on investment attractiveness indicators, including Tobin's Q, EV/EBITDA, P/BV, and WACC. The study utilizes a dataset comprising 16 691 observations for 1859 companies from 57 countries between 2014 and 2022, including 2116 observations for 236 companies from BRICS countries. The analysis revealed that an increase in ESG ratings positively affects market value (Tobin's Q) and risk reduction (WACC) in BRICS countries, while in other countries, their influence is associated with increase in EV/EBITDA and decrease in P/BV. Sector analysis revealed that ESG rating increase positively influence market value in information technology and communication sectors. This study is the first to conduct a comparative analysis of ESG impact in BRICS countries and other regions, including a sectoral analysis, which makes the findings valuable for shaping ESG strategies in this market and assessing business sustainability.

Keywords: ESG, ESG ratings, green economy, investment attractiveness, corporate social responsibility (CSR), sustainable development, environmental factors, social factors, corporate governance, financial performance, BRICS countries

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Introduction

Environmental, Social, and Governance (ESG) practices have emerged as a critical component of corporate strategy, shaping financial performance, investment attractiveness, and market valuation across diverse economic contexts. The integration of ESG factors into business operations is no longer discretionary but increasingly essential, driven by evolving investor preferences, regulatory requirements, and stakeholder expectations. While the benefits of ESG adoption are well-documented in developed markets [1; 2], its influence in emerging economies, particularly in BRICS countries, remains underexplored [3; 4]. These economies present unique dynamics due to varying institutional frameworks, governance standards, and socio-economic challenges.

The subject of this study is the impact of ESG ratings on the investment attractiveness of companies in BRICS countries, with a comparative analysis of non-BRICS markets. The object is the relationship between ESG ratings, ESG rating reporting duration, and key investment attractiveness metrics such as Tobin's Q, EV/EBITDA, P/BV ratios, and Weighted Average Cost of Capital (WACC). By additional examination of industrial effects for BRICS countries, this study aims to uncover the specifics by which ESG practices influence financial outcomes and investor behavior.

The scientific novelty of this study lies in its focus on the nuanced ESG dynamics in BRICS countries compared to non-BRICS markets. By analyzing how ESG ratings and reporting influence financial performance and investment attractiveness across sectors, this research also contributes to a deeper understanding of regional and industry-specific variations. The findings offer practical insights for policymakers, corporate leaders, and investors aiming to optimize ESG strategies in diverse market contexts, aligning sustainability goals with financial success.

This study addresses critical gaps in ESG literature by exploring how market conditions, and sectoral factors shape the outcomes of ESG practices. By focusing on BRICS countries, it adds valuable perspectives to the global discourse on sustainable business practices, highlighting the growing importance of ESG as a tool for driving long-term corporate growth and competitiveness.

Literature review

Theoretical frameworks of ESG influence on companies' financials and investment attractiveness

ESG factors significantly influence corporate strategy, shaping financial performance, investment attractiveness, and market valuation. Theoretical frameworks such as Stakeholder Theory and Institutional Theory offer insights into these effects. Stakeholder Theory emphasizes that addressing ESG concerns strengthens relationships with various stakeholders, improving reputation and financial outcomes [5]. Institutional Theory highlights how regulatory and societal norms drive ESG adoption to align corporate behavior with expectations and secure legitimacy [5]. Market Theories demonstrate the financial materiality of ESG, with investors using ESG metrics to assess risks and integrate them into decision-making, as aligned with the Efficient Market Hypothesis [5].

Studies consistently show that ESG integration enhances financial performance. For example, companies with robust ESG practices report improved Return on Assets (ROA) and Return on Equity (ROE) due to operational efficiencies and risk management [6; 7]. ESG-compliant firms also attract investor confidence during volatile periods, leading to better stock performance and reduced fluctuations [8; 9]. Furthermore, ESG practices lower financing costs by reducing perceived risk, enabling companies to secure capital at favorable rates [5; 10].

Market valuation sees a positive correlation with ESG, as firms with strong ESG ratings command higher price-to-earnings ratios and market capitalizations, driven by investor demand for sustainability and regulatory alignment [11; 12]. ESG also drives institutional investment, with studies showing that ESG-compliant firms attract long-term, stability-focused investors [13; 14].

However, ESG adoption faces challenges, particularly in resource-intensive sectors where high implementation costs can strain operational efficiency and profit margins [15; 16]. ESG controversies, such as greenwashing accusations, can erode trust and result in negative market reactions [17; 18]. Weak governance exacerbates these risks, leading to inefficiencies and poor financial outcomes in scrutinized industries like oil and gas [19; 20]. Misaligned ESG strategies further complicate impact, with firms struggling to balance ESG goals with profitability often experiencing reduced innovation and lower valuation [21].

Differences in ESG influence mechanisms in emerging and developed markets

In developed markets, ESG integration is strongly linked to improved financial outcomes such as higher returns on assets and equity, supported by rigorous disclosure standards and investor preferences for sustainability [1; 2]. Strong institutional frameworks ensure consistent reporting, boosting investor confidence and attracting capital, while governance structures like board diversity enhance ESG performance and long-term investment flows [22]. However, as sustainability becomes a baseline expectation, ESG may no longer offer competitive differentiation, with companies adopting these practices primarily to maintain parity [23].

In emerging markets, the relationship between ESG and financial performance is more varied, often sector-specific and influenced by external factors. Environmental investments in industries like energy yield positive outcomes, but governance and social aspects face challenges due to weaker institutional frameworks [3; 20]. Political instability further complicates governance gains, limiting financial benefits like lower equity costs [24]. Foreign investment and global supply chains play a pivotal role in driving ESG adoption, as firms align with international standards to remain competitive [4]. However, varied consumer perceptions of corporate social responsibility reduce ESG's universal applicability [25].

Key differences between developed and emerging markets include ESG drivers and outcomes. Developed markets benefit from institutional investor demand for measurable ESG impacts, reduced financing costs, and long-term value creation. In contrast, emerging markets rely on foreign investment to drive adoption and face higher implementation costs, though technological advancements are helping close the gap. Cultural and economic contexts further shape effectiveness, with developed markets focusing on long-term sustainability, while emerging markets prioritize short-term stability [3].

BRICS perspective on ESG influence of companies' financials and investment attractiveness

The relationship between ESG practices and corporate performance in BRICS countries reveals patterns shaped by socio-economic and regulatory environments. ESG integration is increasingly recognized as a driver of investment attractiveness, particularly in sectors like oil and gas, electric utilities, and banking, where it signals long-term stability and compliance with global trends. Integrated ESG reporting has become critical for evaluating investment attractiveness, especially in sectors like agribusiness and manufacturing, where stakeholders demand transparency.

The development of ESG in BRICS countries is shaped by unique economic, social, and political factors that distinguish this bloc from Western economies. A key characteristic of BRICS is the diversity in market maturity levels and regulatory approaches to sustainable development, leading to significant variations in ESG integration. While China is actively implementing state-led sustainable finance strategies, Brazil focuses on biodiversity conservation, Russia prioritizes the energy transition and emissions regulation, India expands social impact programs, and South Africa is oriented toward economic decarbonization. Despite these differences, the overarching trend of ESG integration is gaining momentum, driven by international pressure, investment needs, and growing domestic demand for sustainable projects.

The influence of different ESG aspects on financial indicators in BRICS countries is heterogeneous, shaped by variations in economic development, regulatory environments, and institutional frameworks. Environmental and social factors generally exhibit a positive correlation with valuation metrics such as Tobin's Q and return on equity (ROE), particularly in countries with emerging financial markets, where sustainable initiatives can enhance investment attractiveness by improving corporate reputation and access to international capital. However, the impact of corporate governance factors is more complex. In China and Russia, strong state involvement in the corporate sector may reduce governance transparency, whereas in India and Brazil, weak protection of minority shareholder rights can limit the effectiveness of ESG practices. These dynamics highlight the institutional vulnerabilities specific to individual BRICS countries [26–28].

The differences in ESG integration are particularly evident in carbon-intensive industries such as energy, metallurgy, and mining, which constitute a significant portion of BRICS economies. In these sectors, the adoption of ESG initiatives can enhance enterprise value by improving efficiency and long-term sustainability. However, it can also exert pressure on credit ratings due to increased capital expenditures associated with decarbonization and the transition to cleaner technologies. For instance, in Russia and South Africa, high dependence on natural resource exports makes balancing environmental commitments with economic stability especially delicate. In contrast, Brazil's environmental initiatives in the agricultural sector may open up new export opportunities but require substantial investments in sustainable practices. Meanwhile, in China, the ESG agenda is largely state-driven, enabling rapid implementation but also posing risks of centralized regulation that may not always align with market mechanisms.

BRICS stock markets also demonstrate unique ESG trends. Companies prioritizing ESG practices show greater stock stability and investor interest during volatile periods [29], while board diversity and governance reforms enhance ESG-driven mergers and acquisitions [30]. Despite these benefits, challenges persist, including high implementation costs in resource-intensive sectors and the need for stronger institutional frameworks to standardize ESG adoption.

These findings highlight the growing importance of ESG in BRICS countries but underscore the need for tailored approaches to address sector-specific barriers and institutional constraints. Improved regulatory support and strategic ESG integration will be essential for scaling sustainable practices across these emerging economies.

Summary of literature review

The aggregated findings reveal the multifaceted influence of ESG practices across different market contexts, highlighting trends, presented in Table 1.

ESG practices are generally linked to improved financial performance, greater investment attractiveness, and reduced cost of capital, and are driven by operational efficiencies, stakeholder trust, and regulatory alignment. However, these benefits vary across developed, emerging, and BRICS markets due to differences in institutional frameworks and market maturity. In developed markets, ESG practices consistently deliver positive outcomes, including lower financing costs, higher valuations, and strengthened governance. Institutional investors in these regions prioritize sustainability, with social and environmental pillars being particularly impactful due to strong regulatory and consumer pressures.

Table 1. Summary of literature review on topic of ESG influence on companies

Aspect of ESG Impact	General ESG Findings	Developed Markets	Emerging Markets	BRICS Markets
Financial Performance	Predominantly positive; ESG enhances operational efficiency and profitability	Stronger correlation; mature ESG practices consistently enhance ROA and ROE	Sector-specific benefits; uneven correlation due to weak institutional support	Positive but uneven; strong outcomes in energy, agribusiness, and manufacturing
Investment Attractiveness	Increased institutional investment; ESG ratings improve attractiveness	Dominated by institutional investor demand for ESG-compliant firms	Foreign investment drives ESG adoption and attractiveness	Global supply chains and international capital are key drivers
	Higher valuation observed in firms with strong ESG scores	Higher P/E ratios observed for ESG-compliant companies	Improved valuation contingent on external investor confidence	Stock performance stabilized; governance improvements bolster valuation
Cost of Capital	Lower cost of capital due to perceived lower risk	Significantly reduced financing costs for ESG leaders	Moderate cost reduction; less developed risk perception frameworks	ESG implementation raises costs but reduces credit risk over time

Source: author.

Emerging markets show more variable ESG outcomes, often influenced by foreign investment and global supply chain dynamics. While weak governance and regulatory enforcement pose challenges, industries like manufacturing and energy benefit from environmental initiatives aligned with global trends. BRICS countries stand out among emerging markets, showing uneven progress but notable success in sectors with global exposure, such as energy and agribusiness. While ESG implementation raises initial costs, it reduces credit risk, stabilizes stock performance, and improves valuation over time. However, the underperformance of social and governance pillars reflects institutional and cultural constraints.

Critical gaps remain in the understanding of ESG's comparative impact on investment attractiveness in BRICS versus other markets. Further research is needed to optimize ESG strategies, addressing the unique challenges of BRICS economies while aligning with global sustainability goals. Such studies could provide actionable insights to bridge theory and practice, ensuring ESG drives sustainable growth and investment across all markets.

Research methodology

Research hypotheses

The goal of this paper is to analyze the influence of ESG performance of companies from BRICS markets on their investment attractiveness and compare the outcomes with the situation in other regions. The analysis investigates the following research hypotheses:

- The ESG rating significantly influences the investor attractiveness of companies in BRICS countriess compared to companies from non-BRICS countries.
- The impact of ESG ratings on investor attractiveness in BRICS countries varies significantly across sectors.

Data

The data used in this analysis includes ESG company data, financial company data and macroeconomic country data. The source of information for ESG and financial data is the Refinitiv database by Thomson Reuters Eikon.

The dataset includes companies that obtained an ESG rating for the entire period of observations. The dataset includes a total of 16691 observations for 1859 companies from 57 countries worldwide. The period covered is 2014–2022. The dataset of BRICS market includes 2116 observations from 236 companies from 7 countries (Brazil, China, Egypt, India, Russia, South Africa, United Arab Emirates). The data for Iraq and Ethiopia is not added due to the absence of companies with ESG ratings. Non-BRICS countries include various countries from Europe, Asia, Oceania, Americas and Africa. More details are provided in Table 2.

Table 2. Data overview

Market	Observations	Unique Companies
Non-BRICS countries	**14 575**	**1623**
BRICS countries	**2116**	**236**
Brazil	315	35
China	747	83
Egypt	9	1
India	468	52
Russia	34	4
South Africa	534	60
United Arab Emirates	9	1

Source: author.

The companies are categorized by sector based on the Global Industry Classification Standard (GICS), allowing for sector-specific analyses of ESG impacts. This classification provides insights into how industry-specific ESG factors influence financial performance, accounting for the varying levels of ESG risks and regulatory pressures across sectors. GICS sectors and the number of companies in each sector is provided in Table 3.

Table 3. GICS sector overview: BRICS countries

GICS Sector Name	Unique Companies in BRICS countries
Communication Services	13
Consumer Discretionary	35
Consumer Staples	26
Energy	14
Health Care	19
Industrials	52
Information Technology	11
Materials	49
Utilities	17

Source: author.

The full list of explanatory variables is presented in Table 4.

Table 4. List of explanatory variables

Category	Details
ESG Metrics (Independent variables)	
ESG Rating	Comprehensive score reflecting a company's overall ESG commitment, providing a holistic view of sustainability practices on a global scale
ESG Years	Number of years each company has been assigned an ESG rating, capturing sustained ESG efforts over time
Financial Indicators (Dependent variables)	
Tobin's Q	Represents market valuation, indicating investor perceptions of the firm's investment potential
EV/EBITDA	Reflects valuation relative to earnings, used to assess profitability in relation to corporate value
P/B Ratio	Shows market value vs. book value, used to gauge asset value perception
WACC	Weighted Average Cost of Capital; indicates cost of capital and reflects risk perception
Control Variables	
Log Total Assets	Company size (log-transformed), controlling for scale in models
Log Turnover and Log Revenue	Represent operational size, ensuring major firm-specific factors are accounted for in models
Log Revenue	Represents companies' market reach
Instrumental Variables	
Renewable Energy Consumption (% of Total Final Energy Consumption)	Proxy for corporate commitment to sustainable energy practices and environmental responsibility
Research and Development Expenditure (% of GDP)	Proxy for corporate investment in innovation and long-term growth potential

Source: author.

Methodological approach

This study employs a Two-Stage Least Squares (2SLS) regression to analyze firms in BRICS and non-BRICS countries, enabling comparison across regions. In the first stage, an instrumental variable regression predicts ESG scores using renewable energy consumption and R&D expenditure as instruments, with firm size controls (log-transformed assets, turnover, and revenue) to reduce bias. These predicted ESG values are then used as independent variables in the second stage to isolate the impact of ESG factors on financial outcomes, addressing endogeneity concerns.

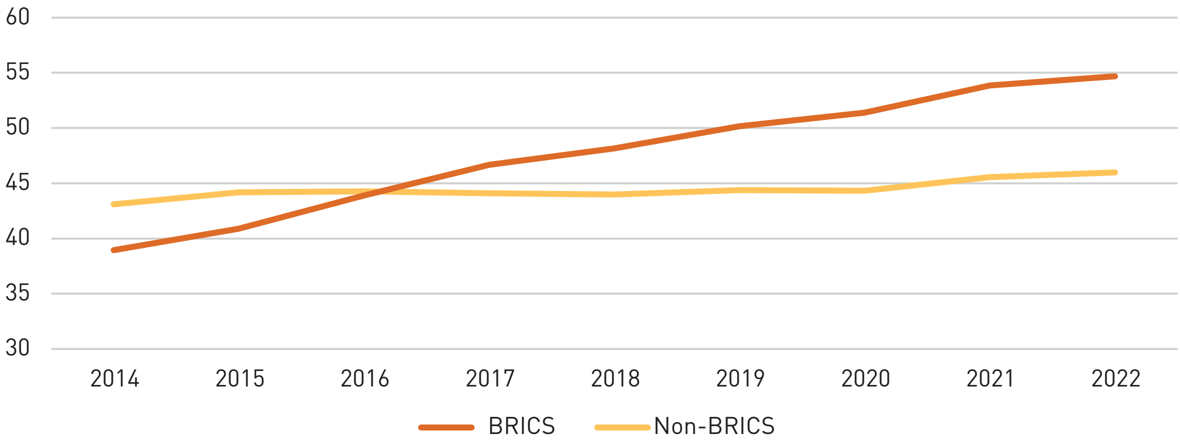
White's robust standard errors correct for heteroskedasticity, and model validity is confirmed with Durbin-Wu-Hausman, Breusch-Pagan, and Durbin-Watson tests. Additionally, a comparative 2SLS regression examines regional differences in ESG's impact on financial performance, with sector-specific analyses for BRICS industries using GICS classification to account for varied ESG-related factors and regulatory environments across sectors.

Main results

Trend analysis of BRICS companies' ESG ratings

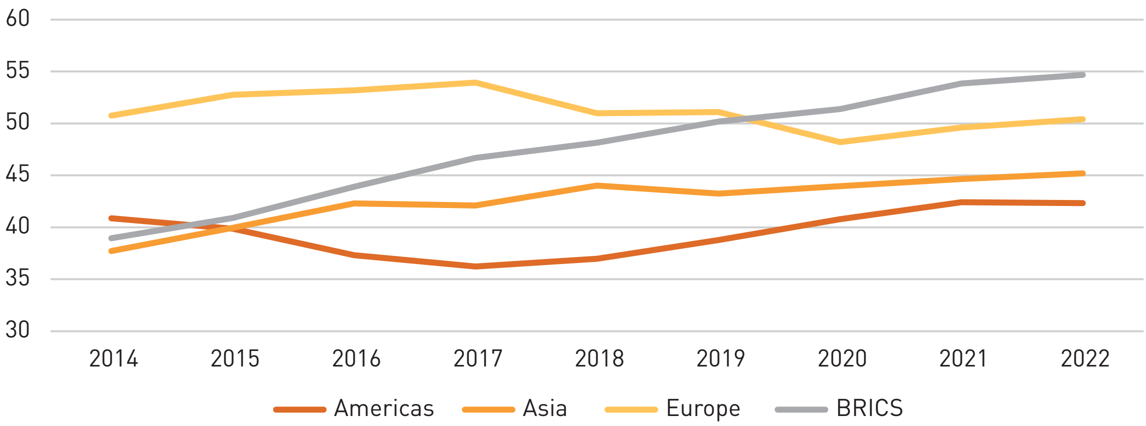
The analysis of average ESG ratings from 2014 to 2022 (Figure 1) reveals distinct trends for BRICS and non-BRICS countries. BRICS countries show a steady and notable increase in ESG scores, rising from an average of 38.9 in 2014 to 54.7 in 2022. This upward trend reflects a significant push in emerging markets to enhance ESG practices, likely in response to global pressures. In contrast, non-BRICS countries, which started with a higher average of 41.1 in 2014, exhibited a more gradual increase, reaching 44.6 in 2022. This slower growth among non-BRICS economies suggests they had already established ESG practices and may include companies with a broad range of ESG scores, from extremely high to low.

Figure 1. ESG rating trend: BRICS vs Non-BRICS countries



Source: author.

Figure 2. ESG rating trend: BRICS, Americas, Asia and Europe



Source: author.

Comparing the average ESG rating growth between BRICS and other regions reveals that BRICS countries are rapidly closing the gap with Europe in ESG performance, indicating considerable progress in sustainability practices. Europe's consistently high ratings reflect its well-established ESG infrastructure, while Asia's steady growth demonstrates a rising commitment to ESG principles. Minimal change in the Americas suggests a plateau effect, potentially due to regional differences in regulatory pressure or market demand for ESG transparency. Overall, these trends highlight both the global progress in ESG adoption and the regional variations in the pace and focus of sustainability initiatives (Figure 2).

ESG rating significantly influences investor attractiveness of companies in BRICS countries compared to companies from non-BRICS countries

In BRICS countries, ESG ratings show a significant positive influence on Tobin's Q compared to non-BRICS countries, suggesting that investors increasingly regard ESG as a signal of sustainable value in BRICS markets (Tables 5–6).

Another market value indicator (P/BV) demonstrated a negative trend with the increase of ESG reporting duration for non-BRICS countries (Table 7), and no effect in BRICS countries (Table 8). This may indicate that with consistent and prolonged ESG rating disclosure, a company is heavily investing in sustainable development. As a result, investors might expect lower profitability in the short term, as the company undergoes a transition to a more sustainable operating model. Another interpretation is that the company's assets may increase in value through enhancements, leading to the company being undervalued. In this case, prolonged ESG rating disclosure may pose a risk for companies to be classified as undervalued. However, if we simultaneously consider the impact of ESG ratings on EV/EBITDA for non-BRICS companies, the relationship appears positive. Prolonged ESG reporting, along with an increase in ESG ratings, may indicate that the company is investing in long-term projects. While these initiatives might not yet yield significant returns, they may increase the company's debt burden (impacting EV) and create uncertainty among investors regarding the current value of the company's assets. Investors may perceive such long-term projects as too risky or anticipate slower profit growth due to increased debt servicing costs.

Higher ESG ratings significantly lower WACC in BRICS, indicating reduced financial risk perception and improved financing conditions due to strong ESG performance (Table 5). However, extended ESG reporting periods tend to increase WACC, as long-term reporting may shift investor perceptions towards stability over growth potential, impacting investor risk-return expectations (Table 8). In non-BRICS countries, ESG does not affect WACC.

To sum up, attention to ESG ratings focuses on risk reduction and increased investor confidence, which lowers the cost of capital.

Long-term attention to ESG reporting may signal a company's transition to a more mature and stable business model, leading to changes in risk perception and higher return expectations from investors.

Table 5. ESG rating influence in BRICS countries

Variable	Tobin's Q	EV/EBITDA	P/BV per share	WACC
Const	18.76788***	1129.144*	8.382447	0.282836***
ESG_rating	**0.21806***	**-19.068**	**0.177159**	**-0.00237*** **
Log_Total_Assets	-2.3184***	-9.40963***	-1.26154***	-0.00786***
Log_Turnover	0.908304***	10.99278***	0.433264***	0.006608***
Log_Revenue	0.48086***	-6.82741	0.345681***	-0.00104

*** p<0.01, ** p<0.05, * p<0.1.

Source: author.

Table 6. ESG rating influence in non-BRICS countries

Variable	Tobin's Q	EV/EBITDA	P/BV per share	WACC
Const	19.69370***	121.31276***	18.21905***	0.16681***
ESG_Predicted	**0.02434**	**0.71932** **	**-0.01098**	**-0.00004**
Log_Total_Assets	-1.49160***	-8.67598***	-1.49169***	-0.00552***
Log_Turnover	0.79379***	5.85749***	0.84959***	0.00329***
Log_Revenue	0.09702*	-1.62913***	0.26497***	-0.00094***

*** p<0.01, ** p<0.05, * p<0.1.

Source: author.

Table 7. ESG reporting years influence in non-BRICS countries

Variable	Tobin's Q	EV/EBITDA	P/BV per share	WACC
Const	20.5655***	134.8397***	18.6360***	0.1684***
ESG Years	**0.1012**	**7.8860*****	**-0.3699****	**-0.0015**
Log_Total_Assets	-1.4973***	-9.7053***	-1.4321***	-0.0053***
Log_Turnover	0.7974***	5.9983***	0.8457***	0.0033***
Log_Revenue	0.0942*	-1.4437**	0.2485***	-0.0010***

*** p<0.01, ** p<0.05, * p<0.1.

Source: author.

Table 8. ESG reporting years influence in BRICS countries

Variable	Tobin's Q	EV/EBITDA	P/BV per share	WACC
Const	29.5115***	192.3330***	17.0708***	0.1638***
ESG Years	**-0.0476**	**2.9185**	**-0.0198**	**0.0016****
Log_Total_Assets	-2.3224***	-8.7423**	-1.2696***	-0.0081***
Log_Turnover	1.0303***	0.3689	0.5317***	0.0052***
Log_Revenue	0.3927***	0.6967	0.2768***	0.0001

*** p<0.01, ** p<0.05, * p<0.1.

Source: author.

Impact of ESG ratings on investor attractiveness in BRICS countries varies significantly across sectors

The Information Technology and Communication Services sectors demonstrated the most significant impact of ESG ratings on investment attractiveness, showing a positive effect on market valuation and profitability indicators. However, the number of years a company has held an ESG rating in these sectors notably correlates with a more negative influence on investment attractiveness. This may suggest that while a high ESG rating boosts appeal, prolonged ESG reporting could reveal operational challenges or maturity effects that might temper investor perception over time.

An interesting finding emerged in the Energy sector, where the ESG rating negatively impacts market valuation but positively affects company profitability (EV/EBITDA). In other sectors (Materials, Utilities, Industrials, Consumer Discretionary, and Healthcare), there is generally a negative influence on investment attractiveness, particularly associated with the duration of ESG reporting. Industrials stand out as the only sector where prolonged ESG reporting positively impacts profitability, though the ESG rating itself has a negative effect on profitability. Notably, WACC in these industries tends to decrease as the duration of ESG reporting grows, suggesting that longer-term reporting might contribute to lower perceived financial risk. An intriguing result has been identified in the energy sector: ESG ratings have a negative impact on Tobin's Q and P/BV but positively influence EV/EBITDA. This suggests that ESG's effect on investment attractiveness in BRICS countries is highly heterogeneous, shaped by sector-specific dynamics and the duration of ESG reporting.

Table 9. ESG factor analysis in BRICS countries: sectoral analysis

Variable	Tobin's Q	EV/EBITDA	P/BV per share	WACC
Information technology				
ESG rating	0.5426***	30.8575**	0.1837***	-0.0027***
ESG Years	-1.2312**	8.0312	0.2905*	0.0003
Communication Services				
ESG rating	0.3489*	2.0888*	0.3977**	0.0032
ESG Years	-2.2702***	-9.3681***	-1.6218***	-0.0045

Variable	Tobin's Q	EV/EBITDA	P/BV per share	WACC
Energy				
ESG rating	-0.1528**	0.9704*	-0.4118***	-0.0064
ESG Years	-0.6780***	-0.412	-0.4371	0.0053
Materials				
ESG rating	-0.0958*	-0.0958*	0.0201	0.0201
ESG Years	0.2269*	24.7695	-0.0636	-0.0006
Utilities				
ESG rating	0.8162**	-2.6015	0.0605	-0.0012
ESG Years	0.2877	5.5142	-2.2552***	0.0058***
Consumer Discretionary				
ESG rating	0.0627	-2.0612	0.1321	0.0031*
ESG Years	0.2666	4.4743	-1.3966***	-0.0056**
Industrials				
ESG rating	-0.2617	-6.8122**	0.0761	0.0003
ESG Years	-2.6051***	11.3204***	-0.7607***	-0.0032**
Health Care				
ESG rating	0.6169***	1.1055	0.1085	0.0025
ESG Years	-3.3619***	-22.6407**	-2.5658***	0.0011
Consumer Staples				
ESG rating	-0.5902	3.1876**	0.0679	0.0042**
ESG Years	-5.9400***	-12.3982***	-3.4093***	-0.0157***

*** $p<0.01$, ** $p<0.05$, * $p<0.1$.

Source: author.

Summary

The findings reveal significant differences in the impact of ESG ratings and reporting on investment attractiveness and financial performance in BRICS and non-BRICS countries. ESG ratings show a stronger correlation with Tobin's Q in BRICS countries, reflecting investor confidence in these markets, where ESG signals are seen as indicators of sustainability and long-term value. This contrasts with non-BRICS countries, where ESG integration is more directly tied to profitability and operational efficiency, highlighting various stages of ESG adoption across regions.

Longer ESG reporting periods correlate with declining P/BV ratios in both regions, indicating a shift from speculative growth to stability. However, in BRICS countries, extended reporting tends to increase WACC, suggesting a focus on stability over growth potential, while in non-BRICS countries, ESG practices more effectively reduce financial risks. Sectoral analysis shows that ESG ratings positively affect valuation in Information Technology and Communication Services but have mixed impacts in sectors like Energy, where they improve profitability but reduce market valuation due to regulatory and reputational challenges.

These findings emphasize the growing importance of ESG ratings in BRICS countries as signals of sustainable growth, while in non-BRICS countries, established ESG practices yield direct operational benefits. Future research should explore how BRICS companies can refine ESG strategies to align investor expectations with operational realities and compare these dynamics with non-BRICS markets to identify best practices for enhancing investment attractiveness globally.

This study offers valuable practical implications for companies, policymakers, and investors in BRICS countries. Companies can leverage ESG ratings to attract investment and enhance market valuation, particularly in sectors like Information Technology and Communication Services. However, they must balance transparency and operational performance, as prolonged ESG reporting may shift investor focus from growth potential to stability. Policymakers can strengthen institutional frameworks and standardize ESG reporting to enhance risk reduction and global competitiveness. For investors, the findings highlight ESG ratings as critical indicators of long-term sustainability in BRICS markets, with sector-specific strategies needed to optimize returns. By addressing these insights, stakeholders can better align ESG practices with sustainable growth and investment objectives.

Aknoledgment

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