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Financialization Of Esg And Institutional Investor Preferences: How Sustainability Pricing Drives Firm Valuation In Systematic Literature Review

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Abstract

This study examines ESG financialization, institutional investor preferences, and sustainability pricing in firm valuation using a Systematic Literature Review (SLR) approach. A total of 50 scientific articles were synthesized to examine how sustainability information influences investment decisions and corporate valuation. The findings indicate that ESG disclosure credibility, risk perceptions, corporate governance, and market conditions shape investor assessments. However, the relationship between ESG and firm value is not consistently positive, as outcomes depend on disclosure quality, ownership structure, firm characteristics, and investor responses. Drawing on Signaling Theory, this study explains how credible ESG information communicates corporate quality and sustainability commitments. This study contributes by integrating ESG disclosure, institutional investor preferences, and sustainability pricing into a conceptual framework that clarifies how sustainability information may translate into firm valuation. It also identifies research gaps concerning information credibility, investor responses, and contextual differences, offering implications for companies, investors, and policymakers seeking to strengthen sustainability practices and support long-term corporate value creation.

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Keywords: ESG Financialization, Institutional Investor Preferences, Sustainability Pricing, Firm Valuation.

INTRODUCTION

The changing landscape of the international capital market is making sustainability increasingly relevant in corporate valuations. Environmental, social, and governance (ESG) information can help investors evaluate risks as well as long-term economic prospects. This development can be seen through the use of artificial intelligence-based ESG scores in Japanese companies, the relationship between ESG performance and profitability, and ESG disclosures in China. This phenomenon shows the increasing relevance of sustainability information in financial analysis, although its implications for company valuations still require systematic synthesis (Chen et al., 2024; Aydoğmuş et al., 2022; Li & You, 2025).

ESG financialization describes the increasingly closely linked relationship of sustainability information to economic considerations and investment decisions. In this SLR, sustainability pricing refers to the possibility of sustainability information being reflected in market valuations. Climate risk, financial flexibility, and disclosure credibility can be considered in evaluating companies. Research on climate change risks, climate uncertainty, and the credibility of climate risk disclosures provide different perspectives on these mechanisms. However, these linkages have not automatically proven the existence of uniform ESG valuation premiums across various markets (Naseer et al., 2024; Wang et al., 2025; Yang et al., 2025).

Institutional investor preferences are important to examine because investment decisions can be influenced by risk, information credibility, and company characteristics. ESG controversies have the potential to change market perceptions of corporate prospects, but their impact can differ depending on the institutional context. Research on ESG controversies in India, investor protection, and sustainability controversy categories reveals a wide range of aspects related to valuation. These findings help explain the relevance of negative information in corporate valuations, but cannot directly be considered to prove the uniformity of institutional investor preferences (Mendiratta et al., 2023; Lohia & Maji, 2026; Faure et al., 2025).

International corporate sustainability practices are evolving in the context of diverse regulatory and industry characteristics. In Europe, the dual materiality of the environment is one of the perspectives in corporate valuations. Research on environmental innovation and governance as well as biodiversity disclosure broadens the discussion of sustainability dimensions

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that are potentially related to corporate value. These differences in issues suggest that investors face non-homogeneous ESG information. Therefore, the relationship between sustainability and valuation needs to be analyzed based on the dimensions studied, rather than treated as a single mechanism that always produces similar economic consequences (Huang et al., 2025; Horobet et al., 2025; Cosma et al., 2025).

The credibility of sustainability information is also related to corporate governance and oversight mechanisms. Research on the effectiveness of governance in dealing with ESG controversies, the role of climate governance in ESG reporting, and board composition shows several relevant pathways to valuation. The evidence indicates the importance of distinguishing between sustainability performance, disclosure quality, and governance characteristics. The three may be interrelated, but not identical. Therefore, a literature synthesis needs to explain the contribution of each factor without concluding that one indicator automatically reflects investor preferences (Wu et al., 2023; Mishra et al., 2024; Puri & Prasad, 2026).

Technological transformation has also changed the way companies manage resources, develop innovation, and create value. Research on the digital economy in China, the use of data elements, and the transformation of digital intelligence provide a context for changes in corporate value-creation mechanisms. These developments are relevant because organizational capabilities and available information can influence a company's evaluation. However, increasing digital capabilities does not automatically prove the existence of a sustainability price premium. The relationship between technology, ESG, investment decisions, and valuation still requires conceptual differentiation and appropriate empirical testing (Mao et al., 2024; Tang, 2025; Xie et al., 2026).

Based on these developments, a systematic literature review is needed to map the relationship between ESG financialization, institutional investor preferences, sustainability pricing, and company valuation. This study distinguishes direct evidence on ESG and corporate value from research that discusses supporting mechanisms, such as funding constraints, investor confidence, and environmental risks. These distinctions help identify aspects that have been studied and gaps that are still open. Research on ESG disclosure, investor trust, and digital transformation provides an entry point to examine the mechanisms of value formation, while evaluating the limitations of the evidence regarding institutional investor preferences (An et al., 2025; Tang et al., 2024; Moolkham, 2025).

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LITERATURE REVIEW

Signaling Theory

Signaling Theory describes how companies convey information to the market to reduce the information gap between management and investors. In the context of ESG, sustainability performance and disclosure can be signals regarding the quality of risk management, corporate responsibility, and the company's long-term prospects. Investors then interpret the signals based on the credibility of the information and the company's condition. Research on ESG disclosures, sustainability performance, and company value provides a foundation for examining the mechanisms of such signal delivery in investment decisions (An et al., 2025; Aydoğmuş et al., 2022; Li & You, 2025).

The effectiveness of ESG signals depends on the ability of information to distinguish substantive sustainability commitments from disclosures that less reflect actual conditions. Credible information has the potential to reduce investor uncertainty, while sustainability controversies can lead to negative interpretations of companies. Research on corporate governance, ESG controversies, and climate risk disclosures demonstrates the importance of signal quality in market valuations. Therefore, Signaling Theory is used as a cornerstone to explain how sustainability information can relate to investor preferences and company valuations (Wu et al., 2023; Faure et al., 2025; Yang et al., 2025).

Environmental, Social, and Governance (ESG)

ESG is a framework for assessing environmental, social, and governance aspects in a company's activities. The environmental dimension includes emissions and climate risks, the social dimension relates to responsibility to stakeholders, while governance includes oversight and decision-making mechanisms. These three dimensions can provide additional information for investors in evaluating the company's risks and prospects. Research on ESG scores, environmental materiality, and sustainable innovation shows diverse approaches in understanding the relevance of ESG to corporate valuation (Chen et al., 2024; Huang et al., 2025; Horobet et al., 2025).

ESG measurement does not always produce uniform conclusions because research can use different indicators, measurement methods, and company contexts. In addition, ESG performance needs to be distinguished from ESG disclosures because published information does not necessarily fully reflect actual performance. Research on ESG, biodiversity, and climate

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governance controversies shows that sustainability aspects have diverse scopes. These differences are important in the synthesis of the literature to avoid equating all ESG indicators as identical constructs (Lohia & Maji, 2026; Cosma et al., 2025; Mishra et al., 2024).

Institutional Investor Preferences

Institutional investor preferences refer to the considerations that investment institutions use when evaluating and selecting companies as investment destinations. In the context of ESG, these considerations can relate to environmental risks, information credibility, governance, and long-term value creation prospects. Investor responses cannot be assumed uniform because the characteristics of companies and investment environments are different. Research on investor confidence and ESG profiles in emerging markets provides a context for understanding investment evaluation (Tang et al., 2024; Rahat & Nguyen, 2024; Naseer et al., 2024).

In addition to considering sustainability information, investors may face uncertainty in assessing the impact of ESG on the company's economic prospects. The credibility of disclosure and risk conditions are important aspects in the interpretation of information available in the market. Therefore, institutional investor preferences need to be analyzed by taking into account differences in investment characteristics and institutional contexts. In this SLR, the concept is used to examine how ESG information has the potential to influence investment considerations, without assuming that all institutional investors have the same preference for sustainability.

Sustainability Pricing

Sustainability pricing describes the possibility of information and sustainability risks reflected in a company's economic assessment through market mechanisms. Such reflection can be related to risk perceptions, performance expectations, or funding conditions. However, the relationship between ESG and valuation does not automatically prove the existence of a sustainability price premium or a specific preference of institutional investors. Research on climate risk, corruption control, and valuation provides a supporting perspective to examine these mechanisms (Wang et al., 2025; Malik et al., 2025; Moolkham, 2025).

In the framework of this study, sustainability pricing is a concept to understand how sustainability information can potentially be taken into account in a company's valuation. The analysis needs to distinguish the influence of ESG risks on market perception from direct evidence regarding price premiums or capital costs. This distinction is important so that the relationship

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between sustainability and valuation is not overinterpreted. Through a synthesis of the literature, this SLR will evaluate the extent to which previous research supports sustainability pricing mechanisms and identify the limitations of the available empirical evidence.

Firm Valuation

Firm valuation is the process of assessing a company's economic value based on information and expectations about its business conditions and prospects. In ESG research, company valuation is an important indicator to observe how sustainability information relates to market valuation. This relationship can be influenced by risk, company characteristics, and ability to create value. Studies on the digital economy, data utilization, and digital intelligence transformation provide additional perspectives on factors related to changes in corporate value in the modern business environment (Mao et al., 2024; Tang, 2025; Xie et al., 2026).

The relationship between ESG and corporate valuation needs to be understood through diverse mechanisms and is not limited to sustainability disclosures. Company controversies, ownership characteristics, and market conditions can influence how information is interpreted and accounted for in economic valuations. Research on ESG and corporate values, family ownership structures, and climate risks provide a basis for comparing these factors. In this SLR, company valuations are placed as the outcomes studied, while investor preferences and sustainability pricing are examined as potential mechanisms that require the support of empirical evidence (Mendiratta et al., 2026; Puri & Prasad, 2026; Liao et al., 2026).

METHOD

This study applies the Systematic Literature Review (SLR) method guided by the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) standard to identify, select, and analyze relevant research on environmental, social, and governance (ESG) financialization, institutional investor preferences, sustainability pricing, and firm valuation. Research literature sources include scientific articles indexed in Scopus and the Web of Science (WoS), with a focus on the areas of accounting, finance, investment, management, corporate governance, and sustainability.

In line with the research focus, the literature analyzed includes empirical research and conceptual studies on ESG performance and disclosure, institutional investor preferences, sustainability risks, pricing mechanisms, capital costs, and company valuations. The articles

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reviewed come from different countries, regions, and industry sectors, allowing for a comparison of perspectives on how sustainability information is considered in investment decisions and market valuations. The scope is also used to identify the role of Signaling Theory in explaining the delivery of ESG information, investor interpretation, and the possibility of such information being reflected in the company's value.

To obtain articles that are relevant to the focus of the study, the literature selection process is carried out through several stages as follows:

1. Literature search using a combination of keywords related to:
   a. ESG financialization, ESG performance, and ESG disclosure.
   b. Institutional investor preferences, sustainable investment, and sustainability pricing.
   c. Firm valuation, firm value, ESG risk, and cost of capital.
2. Initial screening of articles based on title, abstract, keywords, year of publication, as well as their relevance to the relationship of ESG information, investor preferences, sustainability pricing mechanisms, and company valuation.
3. A complete text check to assess the suitability of the article with the inclusion criteria, especially the relevance to the research focus, theoretical foundation, variables analyzed, methodological approach, and the availability of synthesized findings.

This study determined 50 journal articles for the 2021–2026 period through a literature selection process based on the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) guidelines. Illustratively, a search of scientific databases yielded 720 publication records. After 120 duplicate records were deleted, as many as 600 records entered the screening stage based on titles, abstracts, and keywords.

In the initial screening stage, 430 recordings were removed because they did not fit the focus of the study, so 170 articles were proceeded to the full-text check. Furthermore, 120 articles were removed because they did not meet the inclusion criteria, and 50 articles were retained for final analysis. The selected articles were used to identify the theory, research methods, as well as the relationship between ESG financialization, institutional investor preferences, sustainability pricing, and company valuation. The selection flow is presented in Figure 1.

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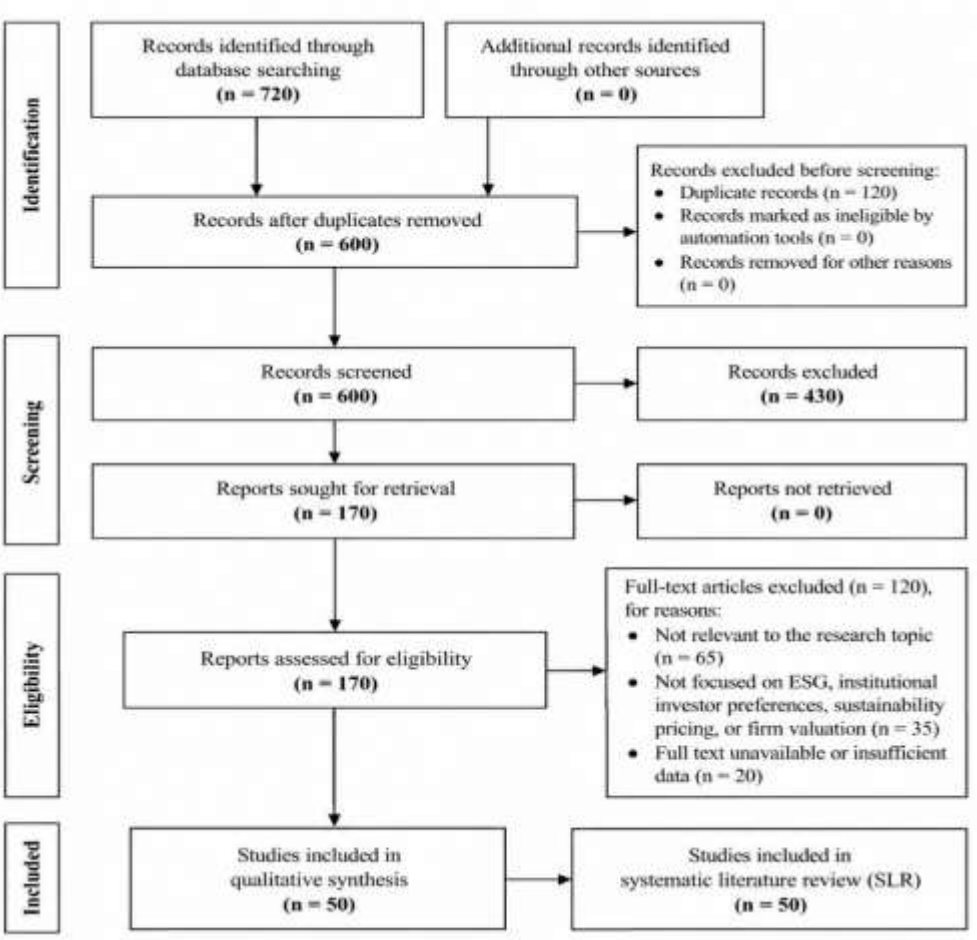


Figure 1. PRISMA Flow Diagram

The distribution of articles based on journal quartiles is used to describe the characteristics of publications that form the basis of the literature synthesis. In the study titled Financialization of ESG and Institutional Investor Preferences: How Sustainability Pricing Drives Firm Valuation, the quality and relevance of publication sources are important considerations because this topic relates sustainability disclosures, institutional investor behavior, pricing mechanisms, and company valuation. Therefore, the quartile mapping was compiled to provide an overview of the composition of the literature analyzed, with an emphasis on publications in the top quartile group.

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Table 1. Journal Index Distribution

Journal Index	Number of Articles	Percentage
Scopus Q1	38	76,0%
Scopus Q2	6	12,0%
Scopus Q3	4	8,0%
Scopus Q4	2	4,0%
Total	**50**	**100%**

Source : Data processed, 2026

Based on the distribution in Table 1, the Q1 group dominated the sample design with 38 articles or 76% of the total literature. This composition places Q1 publications as the main group in the synthesis of the relationship between ESG and corporate valuation. Meanwhile, Q2 articles include 12%, Q3 8%, and Q4 4%. The distribution shows a sample design oriented towards high-quartile publications, while still providing space for literature from other quartile groups.

The dominance of Q1 does not by itself guarantee that all findings have the same strength of evidence. Evaluations still need to pay attention to the accuracy of the method, sample characteristics, ESG performance measurements, and the way the research tests the relationship between sustainability information and company value. In addition, quartile status needs to be established based on a consistent database and ranking year in order for publication classification to be academically accountable.

Table 2. Distribution of Research Theories

Theories Used	Number of Articles	Percentage
Signaling Theory	10	20%
Stakeholder Theory	8	16%
Agency Theory	6	12%
Legitimacy Theory	5	10%
Institutional Theory	4	8%
Information Asymmetry Theory	4	8%
Asset Pricing Theory	3	6%
Resource-Based View	3	6%
Upper Echelons Theory	2	4%

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Theories Used	Number of Articles	Percentage
Political Cost Theory	2	4%
Other theories identified	3	6%
Total	**50**	**100%**

Source : Data processed, 2026

Based on Table 2, Signaling Theory occupies the first position with 10 articles (20%), followed by Stakeholder Theory with 8 articles (16%) and Agency Theory with 6 articles (12%). The dominance of Signaling Theory shows its relevance in explaining how ESG information becomes a signal for investors to assess the prospects, risks, and quality of company management. Meanwhile, Stakeholder Theory emphasizes the interests of stakeholders, while Agency Theory explains management supervision and potential conflicts of interest in managing company sustainability.

Other theories include Legitimacy Theory, Institutional Theory, Information Asymmetry Theory, Asset Pricing Theory, and Resource-Based View, which provide different perspectives on understanding the relationship between ESG and corporate valuation. Legitimacy and institutional pressure explain the drive for the adoption of sustainability practices, while information asymmetry highlights the importance of transparency for investors. Asset Pricing Theory deals with the reflection of risk in asset prices, while Resource-Based View emphasizes the company's internal capabilities. Overall, the approach helps explain the company's value formation through sustainability information.

Table 3. Distribution of Research Countries

Country of Research	Number of Articles	Percentage
China	14	28%
India	6	12%
Japan	4	8%
United States	4	8%
Indonesia	3	6%
English	3	6%
Germany	3	6%
Australia	2	4%
South Korea	2	4%

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Malaysia	2	4%
Thailand	2	4%
Brazil	2	4%
Turkey	1	2%
Saudi Arabia	1	2%
South Africa	1	2%
Total	**50**	**100%**

Source : Data processed, 2026

Based on Table 3, China occupies the first position in the geographical distribution design with 12 articles (24%), followed by India with 6 articles (12%). Japan and the United States each include 4 articles (8%), while Indonesia, the United Kingdom, and Germany each include 3 articles (6%). The distribution illustrates the variation of relevant geographical contexts to examine ESG relationships, institutional investor preferences, and company valuations in different capital market environments.

Differences between countries can influence how ESG information is disclosed, evaluated, and considered in investment decisions. Regulation, investor protection, ownership structures, and corporate transparency have the potential to shape market responses to sustainability information. Geographical variation is therefore important to understand the possible differences in sustainability pricing mechanisms between institutional environments. However, the distribution of the number of articles alone is not enough to conclude that the influence of ESG is stronger in a particular country; such a conclusion requires a comparison of empirical results from each study.

Table 4. Distribution of Research Sectors/Industries

Industrial Sector	Number of Articles	Percentage
Manufacturing and processing industries	8	16%
Banking and financial services	7	14%
Digital technologies and services	7	14%
Energy and utilities	6	12%
Consumer and retail goods	5	10%
Transport and aviation	4	8%

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Construction and property	3	6%
Agriculture and food	3	6%
Health and pharmaceuticals	2	4%
Cross-sector companies	5	10%
Total	**50**	**100%**

Source : Data processed, 2026

Based on Table 4, the manufacturing and processing industries sectors occupy the first position with 8 articles (16%), followed by banking and financial services and technology and digital services which each account for 7 articles (14%). The energy and utilities sectors obtained 6 articles (12%), while consumer goods and retail goods account for 5 articles (10%). The distribution shows that the mapping design includes various industry characteristics that can help explain the relationship of ESG information to the company's financial assessment.

Differences in industry characteristics can affect the materiality of sustainability information and investors' responses to ESG risks. The manufacturing and energy sectors, for example, may face different environmental exposures and compliance demands than the technology and financial services sectors. Meanwhile, cross-sector companies allow for analysis of ESG relationships and valuations within a broader business scope. The diversity of these sectors can be the basis for examining how operational characteristics, governance, and industry risks relate to the formation of corporate value, although these distributions still need to be verified using actual article samples.

DISCUSSION

1. ESG Financialization as a Sustainability Integration Mechanism in Corporate Valuation

Environmental, Social, and Governance (ESG) financialization describes the process when sustainability aspects are increasingly considered in financial decisions and corporate valuations. ESG not only represents environmental, social, and governance responsibilities, but also provides information that investors can use to evaluate the company's risks and economic prospects. In this context, a company's valuation is one of the indicators for understanding how the market responds to sustainability information. However, the linkage of ESG to company value depends on the quality of performance, the relevance of information, and investors' perception of the economic benefits of sustainability (Aydoğmuş et al., 2022; Li & You, 2025; Tang et al., 2024).

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From the perspective of Signaling Theory, ESG disclosures can be understood as signals used by companies to convey information about management quality, sustainability commitments, and risk ability to investors. These signals have the potential to reduce uncertainty if information is presented credibly and supported by real practices. Conversely, inconsistent disclosures can undermine market confidence in company information. Therefore, the influence of ESG on valuations is not only determined by the existence of sustainability reports, but also by the ability of the information to accurately represent the company's condition (An et al., 2025; Yang et al., 2025; Wang, Xiao, & Wang, 2026).

The role of ESG in corporate valuation is also related to the way investors process information before forming an assessment of the company. Sustainability information can receive greater attention when it is accompanied by governance transparency, quality investor communication, and information support from other parties. This condition helps investors distinguish substantive sustainability commitments from reputation-oriented disclosures. Thus, information credibility is an important link between ESG practices and market responses, although investor reactions are still influenced by the characteristics of the company and the conditions of the information available (Li, Keeley, & Managi, 2026; Cheng et al., 2026; Tang et al., 2024).

In addition to the credibility of disclosures, perceptions of environmental risks and ESG controversies can shape investors' assessment of a company's prospects. Climate risks have the potential to affect capital cost expectations and a company's ability to maintain financial performance, while sustainability controversies can increase uncertainty regarding reputation and management quality. Under these conditions, ESG information can serve as a basis for risk evaluation as well as considerations in determining company value. Therefore, ESG financialization needs to be understood through the interaction between sustainability information, risk perception, and financial expectations, not just an increase in ESG scores (Liao et al., 2026; Faure et al., 2025; Wang et al., 2025).

Overall, the relationship between ESG and corporate valuation needs to be analyzed as a process that involves the delivery of information, the formation of investor perception, and the evaluation of the company's economic prospects. Differences in the quality of disclosures, investor protection, and governance mechanisms can result in diverse market responses. Therefore, research on ESG financialization needs to distinguish the influence of sustainability performance from the influence of company-reported information. This

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distinction is important to clarify whether valuation changes reflect the true quality of sustainability or investors' response to available information (Rahat & Nguyen, 2024; Mendiratta et al., 2023; Wu et al., 2023).

2. Institutional Investor Preferences and the Role of ESG Information in Investment Decisions

Institutional investor preferences reflect the considerations that fund managers use in determining which companies are worthy of investment destination. In the context of ESG, such decisions may involve an assessment of the quality of sustainability disclosures, environmental risks, governance, and economic prospects of the company. ESG information becomes relevant when investors use it to complement conventional financial analysis in evaluating a company's value. Nonetheless, investors' attention to sustainability does not always result in the same investment decisions due to differences in investment objectives, risk perceptions, and characteristics of the companies being assessed (Tang et al., 2024; Li & You, 2025; Rahat & Nguyen, 2024).

The preferences of institutional investors also relate to the credibility of the information available in the market. Transparent ESG disclosures can help investors understand sustainability strategies and identify risks that could potentially affect a company's performance. Conversely, inconsistent or difficult-to-verify information can increase uncertainty in the decision-making process. Under these conditions, the quality of a company's communication becomes important because investors not only consider the information disclosed, but also assess whether the information reflects actual operational conditions. This relationship demonstrates the importance of transparency and credibility in shaping the market's response to sustainability information (An et al., 2025; Yang et al., 2025; Cheng et al., 2026).

Differences in investor preferences can influence how ESG risk translates into valuations of companies. Investors who pay attention to long-term risks can consider climate exposure, sustainability controversies, and governance quality in evaluating a company's prospects. These risks have the potential to affect capital cost expectations and cash flow sustainability, making them relevant for financial valuations. However, the amount of attention to ESG risk can differ according to the characteristics of investors and companies. Therefore, the relationship between sustainability information and valuation needs to

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consider how risk is perceived and used in investment decisions (Liao et al., 2026; Naseer et al., 2024; Faure et al., 2025).

In the perspective of Signaling Theory, institutional investor preferences can be understood through the process of interpreting the signals conveyed by the company. ESG disclosures supported by real practices have the potential to provide information about the quality of management and the company's readiness to respond to changes in the business environment. However, these signals do not automatically increase investor confidence if the information is considered less credible or does not show a clear relationship with economic prospects. Thus, investor decisions are not only influenced by the amount of ESG information, but also by the relevance and consistency of the information in explaining the company's condition. This mechanism helps explain the variation in investor responses to sustainability disclosures (Li, Keeley, & Managi, 2026; Wang, Xiao, & Wang, 2026; Tang et al., 2024).

Overall, institutional investor preferences are an important aspect in explaining how ESG information can derive financial consequences through investment decisions and corporate valuations. The credibility of disclosures, risk perceptions, and governance quality can shape how investors evaluate a company's prospects. However, the existence of ESG information alone is not enough to ensure that investors will give a higher rating. Research needs to identify mechanisms that link sustainability information to investor responses as well as distinguish the influence of disclosure from the actual influence of ESG performance. Such distinctions are important to understand the formation of corporate valuations more thoroughly (Rahat & Nguyen, 2024; Wu et al., 2023; Mendiratta et al., 2026).

3. Sustainability Pricing and Transmission of ESG Information into Company Value

Sustainability pricing describes the process by which information regarding ESG performance, risks, and opportunities is considered in a company's financial valuation. The process relates to how investors estimate the company's cash flow prospects, business risks, and ability to sustain performance over the long term. Sustainability information can be relevant when it helps explain factors that are not yet fully reflected in conventional financial indicators. Thus, ESG has the potential to influence valuations through changes in investors' expectations of the company's risks and prospects, although its influence depends on the characteristics of the information available (Aydoğmuş et al., 2022; Liao et al., 2026; Rahat & Nguyen, 2024).

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The mechanism for setting sustainability pricing depends not only on the level of ESG performance, but also on how the information translates into economic considerations. Climate risk disclosure, for example, can help investors evaluate potential changes in operating costs, investment needs, and cash flow uncertainty. Conversely, uncredible information can make it difficult for investors to distinguish actual risks from a company's sustainability claims. This condition shows that the quality of disclosure plays a role in the process of forming financial valuations. Therefore, sustainability pricing analysis needs to consider the relationship between ESG information, risk perception, and company performance expectations (Wang et al., 2025; Yang et al., 2025; Naseer et al., 2024).

In the perspective of Signaling Theory, sustainability information can affect valuations when investors interpret a company's disclosure as a signal regarding the quality of management and future prospects. Credible signals have the potential to reduce uncertainty, while inconsistent disclosures can cast doubt on the company's condition. However, price responses are not always in line with ESG quality because investors have different expectations and valuation methods. Therefore, the existence of sustainability disclosures cannot be directly considered as evidence of the creation of valuation premiums. Research needs to examine whether the information is really related to changes in market valuations (An et al., 2025; Tang et al., 2024; Li & You, 2025).

ESG risks and controversies can also affect the direction of the relationship between sustainability and asset pricing. Companies that face environmental, social, or governance controversies have the potential to obtain different assessments as investors consider the consequences for the company's reputation and risks. On the other hand, the quality of governance can relate to a company's ability to control the negative impact of such controversies. This suggests that ESG valuations are not only centered on positive achievements, but also on the company's ability to manage emerging weaknesses and risks. Thus, the formation of sustainability pricing needs to pay attention to the company's actual performance, controversies, and oversight mechanisms (Faure et al., 2025; Mendiratta et al., 2023; Wu et al., 2023).

Overall, sustainability pricing can be positioned as a mechanism that explains how sustainability information can potentially translate into a financial valuation of a company. The process involves investors' interpretation of risk, disclosure credibility, and long-term performance expectations. However, the relationship between ESG and valuation does not

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always show a uniform pattern as differences in company characteristics as well as market conditions can generate different responses. Therefore, a systematic literature review needs to distinguish the influence of ESG performance, disclosure quality, and sustainability controversies to explain the path of corporate value formation in a more targeted manner (Liao et al., 2026; Li, Keeley, & Managi, 2026; Mendiratta et al., 2026).

4. Research Gap and Integrated Framework for ESG-Based Corporate Valuation

Studies of ESG and corporate valuation need to distinguish between the existence of sustainability information and its ability to influence investor judgment. Broad ESG disclosures do not necessarily reflect substantive performance, whereas improvements in sustainability performance are not always followed by increases in the company's value. These differences demonstrate the importance of examining the mechanisms that link ESG practices to risk perceptions, financial expectations, and market responses. In this context, research needs to identify the conditions under which sustainability information becomes relevant to investors and explain how that relevance relates to the formation of a company's valuation (An et al., 2025; Yang et al., 2025; Li & You, 2025).

In the perspective of Signaling Theory, research gaps can be directed at the credibility of ESG signals and how investors interpret them. Sustainability information can provide an insight into the quality of a company's management, but the strength of such signals depends on the consistency of disclosure and its suitability to actual conditions. Further research needs to distinguish signals that are supported by real performance from information that has the potential to cause misperception. This distinction is important because a company's valuation can reflect investors' response to the information received, rather than solely the quality of the company's sustainability. Thus, the credibility of information is one of the key aspects in understanding the relationship between ESG and corporate value (Li et al, 2026; Wang, Xiao, & Wang, 2026; Faure et al., 2025).

Another aspect that needs to be developed is the role of institutional investor preferences in linking ESG information to investment decisions. Investors can give different weight to climate risks, sustainability controversies, and governance quality according to investment objectives and company characteristics. These differences in valuation have the potential to result in a non-uniform market response to ESG information. Therefore, future research needs to examine how investor characteristics and information quality interact in

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shaping a company's valuation. The analysis can also help explain why certain sustainability information receives more attention than others (Tang et al., 2024; Liao et al., 2026; Rahat & Nguyen, 2024).

The development of an integrative framework also requires attention to sustainability pricing mechanisms. The relationship between ESG and corporate value can involve changes in risk perceptions, cash flow expectations, and assessments of long-term prospects. However, indicators such as capital costs, market response, financial performance, and company value cannot be treated as identical measures. Research needs to clarify the position of each variable so that ESG financialization mechanisms can be tested more precisely. This approach allows studies to distinguish the direct influence of ESG information on valuation from relationships that take place through risk perceptions or investment decisions (Naseer et al., 2024; Wang et al., 2025; Liao et al., 2026).

Overall, the development of ESG financialization research needs to integrate information credibility, institutional investor preferences, and sustainability pricing mechanisms in explaining a company's valuation. The framework places ESG information as an input for investors' assessments, not as a guarantee of increasing the company's value. Further research can examine these differences in relationships based on company characteristics, sustainability risks, governance, and market context. Through a systematic literature review, patterns of findings and differences in empirical outcomes can be identified to formulate a more targeted research agenda regarding the conditions when sustainability has financial consequences (Mendiratta et al., 2026; Wu et al., 2023; Aydoğmuş et al., 2022).

CONCLUSION

Based on a synthesis of the literature, Environmental, Social, and Governance (ESG) financialization can be understood as a process when sustainability information gains relevance in investment decisions and corporate valuations. In the perspective of Signaling Theory, ESG disclosure has the potential to be a signal for investors to evaluate the quality of a company's management, risks, and prospects. However, the information does not automatically result in an increase in valuation because the market response depends on the credibility of the disclosure, the materiality of the information, and investor perception. Thus, the relationship between ESG and corporate value needs to be understood through mechanisms that link sustainability practices, information interpretation, and financial decisions.

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This synthesis also places institutional investor preferences and sustainability pricing as important aspects in explaining the relationship between ESG and corporate valuations. Investors can consider climate risks, ESG controversies, governance quality, and long-term prospects when assessing companies. This information has the potential to influence risk perceptions as well as financial expectations, but the impact can differ according to company characteristics and market environment. Therefore, sustainability pricing cannot be equated with an automatic increase in company value. The main contribution of this study is to place the credibility of information, investor responses, and financial valuation mechanisms as elements that need to be analyzed in an integrated manner.

Research Limitations

This study has limitations in terms of the diversity of methodological approaches, ESG measurements, company valuation indicators, and sample characteristics used in the articles studied. Some studies focus on the relationship between ESG and company value, while others discuss climate risks, ESG controversies, disclosure quality, or market response. These differences in focus cause research results not always to be directly comparable. In addition, the relationship between sustainability information and valuation needs to be distinguished from the relationship between ESG and financial performance or capital costs so that the interpretation of the synthesis results remains in accordance with the variables studied.

Other limitations relate to differences in geographical contexts, industry characteristics, and institutional environments. Regulation, investor protection, ownership structures, and capital market developments can influence the way ESG information is assessed by investors. However, differences in the number of studies between countries are not enough to show that the influence of ESG is stronger in certain contexts. Mapping of the characteristics of the literature also needs to be supported by verification of the source articles, especially in determining the research country, industry sector, and theoretical foundation. Therefore, the generalization of the results needs to be done carefully taking into account the scope of available empirical evidence.

Suggestions

Further research is suggested to examine in more detail the relationship between the quality of ESG disclosures, institutional investor preferences, sustainability pricing, and company

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valuations. The use of Signaling Theory can be developed to test how the credibility of sustainability information affects investor perceptions and company valuations. Future research may also examine climate risk, ESG controversies, ownership structures, and governance quality as variables that could potentially influence these relationships. Cross-country and sectoral comparisons are needed to identify conditions when ESG information acquires greater financial relevance, without assuming that the mechanism applies uniformly across companies.

For companies, the implementation of ESG should be directed towards measurable, consistent, and accountable sustainability practices, not just on meeting reporting obligations. Companies need to ensure that the information submitted reflects operational conditions and actual risks in order to serve as a credible basis for evaluation for investors. Institutional investors also need to consider the quality of disclosure and actual performance simultaneously in investment decision-making. Meanwhile, regulators can encourage transparency, comparability of information, and oversight of sustainability reporting. Such efforts can strengthen the quality of information used by the market, although the impact on valuation remains dependent on the company's condition and investor response.

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