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"Gheorghe Asachi" Technical University of Iasi, Romania

THE MODERATING ROLE OF FINANCING DECISION ON ENVIRONMENT, SOCIAL AND GOVERNANCE (ESG) INVESTMENT AND FIRMS ETHICAL CONDUCT: EVIDENCE FROM CHINA

Dejun Zhou[1]*, Andrew Osei Agyemang[2,3]*, Abednego Osei[2]

[1]*School of Law, Jiangsu University, Zhenjiang, 212013, China*
[2]*School of Finance and Economics, Jiangsu University, Zhenjiang, 212013, China*
[3]*School of Business, SDD University of Business and Integrated Development Studies, Wa, Ghana*

Abstract

The growing global focus on sustainable business practices has heightened the need to explore how Environmental, Social, and Governance (ESG) investments influence business ethical conduct (BEC). In China, a rapidly evolving economy with increasing interest in sustainability, understanding how firms incorporate ESG principles into their operations is crucial. This study examines the impact of ESG investment on BEC in China's manufacturing sector, with a particular focus on the role of financing decisions. Using secondary data from 314 listed manufacturing firms in China over the period from 2008 to 2022, the study applies the Common Correlated Effects Mean Group (CCEMG) estimator as the primary method, supported by the Augmented Mean Group (AMG) estimator for robustness. The findings reveal that ESG investment positively influences BEC. Moreover, debt financing positively moderates the relationship between ESG investment and ethical conduct, while equity financing negatively affects this relationship. These results suggest that debt financing supports firms in prioritizing long-term sustainability and ethical practices, whereas equity financing may present challenges in aligning ESG investments with ethical behavior. In conclusion, the findings emphasize the importance of policymakers and stakeholders actively promoting ESG investments and integrating financing decisions with sustainability objectives, especially in the manufacturing sector, to foster improved BEC.

Keywords: Business Ethical Conduct; China; ESG Investment; Financing Decision

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* Author to whom all correspondence should be addressed: e-mail: foreverzdj@ujs.edu.cn; oseiandy16@yahoo.com