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THE IMPACT OF AFFECTIVE EMPATHY ON ESG INVESTMENT DECISION-MAKING

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Abstract:

This study examines the two dimensions of emotional empathy, namely empathic concern and personal distress, and their impact on Environmental, Social, and Governance (ESG) investment decisions. The findings indicate that empathy, as a focused emotional response, enhances investors' sense of social responsibility and encourages them to prioritize ESG projects that generate social and environmental value. It also strengthens the long-term perspective and fosters a willingness to cooperate, thereby providing crucial support for sustainable investment. Personal distress, as a self-centered emotional response, can increase prosocial behavior when experienced at moderate levels; however, excessive personal distress can lead to anxiety and avoidance behaviors, potentially inhibiting participation in ESG investments, particularly in projects involving high risks or complex decision-making. Personal distress prompts investors to prioritize short-term financial returns, reducing their attention to the long-term social benefits of ESG projects. This conceptual study provides a framework for understanding how different emotional responses influence ESG investment decisions. Based on these findings, it is suggested that future research explore strategies to mitigate the negative effects of personal distress and promote empathy in investors to better support sustainable development goals.

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Introduction

ESG investment (Environmental, Social, and Governance investment) is an investment strategy that considers environmental, social, and corporate governance factors, aimed at promoting sustainable development and maximizing long-term social, environmental, and economic value (Li et al., 2021). ESG investment not only focuses on the financial performance of investments but also evaluates their impact on the environment, social responsibility, and governance structures (Matos, 2020). With the advancement of global sustainable development goals, ESG investment has become a significant trend in global capital markets. ESG investment decisions are a concrete manifestation of this philosophy, emphasizing that investors should not only focus on economic returns but also assess the responsibility of the invested companies in terms of social and environmental aspects (Chen et al., 2023). ESG investment decisions are driven not only by financial interests but also by sensitivity to social suffering and injustice, along with a strong sense of responsibility to improve social and environmental conditions.

As ESG investment continues to evolve, investors are increasingly considering environmental, social, and corporate governance factors. The psychological factors of decision-makers play a crucial role in shaping ESG decision-making behaviors. These psychological responses significantly influence how investors evaluate and select projects, thereby affecting ESG programs. Research has shown that emotional factors have a diverse impact on investor behavior, and certain emotional mechanisms, such as empathy, can influence investor actions. However, studies on the impact of empathy on investors' support for ESG projects remain limited. This research aims to construct a conceptual framework through logical reasoning and theoretical foundations to establish relevant concepts.

The impact of empathic concern on ESG investment decisions may be indirect, as it could psychologically influence or evoke the investor's sense of social responsibility and environmental empathy. ESG investments encourage investors to prioritize initiatives with long-term social and environmental value. On the other hand, some emotional responses may suppress this trend, leading investors to focus more on short-term returns and avoid higher-risk or more complex projects. Understanding these emotional drivers is crucial for optimizing ESG investment decisions and advancing sustainable development goals.

This paper aims to explore the influence of emotional empathy (empathic concern and personal distress) on ESG investment decisions. By investigating how these emotional responses shape investor behavior, this paper seeks to answer the following research questions: How does empathic concern affect investors' willingness to support ESG projects? In what ways does personal distress influence investor decision-making, particularly in high-risk or complex ESG investments? Understanding the emotional mechanisms behind ESG decision-making is not only important for improving investment strategies but also crucial for developing better investor education programs. These insights can guide increased investment in ESG and contribute to fostering a more sustainable and responsible investment environment.

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Conceptual And Theoretical Framework Of Professional Identity

Empathy refers to the emotional response an individual experiences when observing the emotional state of others. It primarily consists of two dimensions: empathic concern and personal distress (Davis, 1983). These two emotional mechanisms have been extensively studied in the fields of psychology and behavioral economics to explain the reasons behind individuals' decision-making processes. A substantial body of research has demonstrated that empathy is related to altruistic behavior and serves as the cornerstone of prosocial actions (Batson et al., 1981; Carlo & Randall, 2002; Little et al., 2023).

Concept and Theoretical Framework of Empathic Concern

Empathic concern is an other-oriented emotional response characterized by attention to the needs of others and a motivation to help them. The core characteristics of empathic concern are its extroversion and altruism, which drive individuals to take proactive actions to alleviate others' suffering or improve social issues (Arabadzhy & Korniienko, 2018). This emotional mechanism is particularly evident in ESG investments, as ESG projects inherently focus on social welfare, environmental protection, and sustainable development. Research indicates that empathic concern significantly enhances individuals' sense of social responsibility and encourages them to prioritize behaviors that positively impact society and the environment (Ruedy & Schweitzer, 2010).

In the context of ESG investing, empathic concern helps explain why investors are willing to allocate resources to support social responsibility projects or environmental protection programs. This is because empathic concern fosters greater social responsibility by enhancing investors' altruistic behaviors aimed at improving the lives of others. Investors with high levels of empathic concern often exhibit a strong inclination toward altruism, incorporating factors like social impact and public welfare into their investment decisions, making choices that benefit society and the environment, rather than focusing solely on financial returns. This process can be explained by the Social Value Orientation (SVO) theory (Murphy et al., 2011). In the SVO framework, individuals with high empathic concern tend to exhibit a cooperative SVO, where they prioritize others' interests in resource allocation and investment decisions, and are willing to accept trade-offs between potential economic and social returns. Studies show that investors with high empathic concern may prioritize ESG investments because these projects satisfy their intrinsic altruistic needs while delivering long-term social and environmental returns (FeldmanHall et al., 2015).

Concept and Theoretical Framework of Personal Distress

Personal distress is a self-oriented emotional response characterized by discomfort or anxiety that an individual feels due to the suffering of others. The key features of personal distress are its introversion and avoidance tendencies. Research has shown that moderate levels of personal distress can increase altruistic behavior; however, if the intensity of personal distress is too high, it typically triggers self-protective behavior (Cialdini et al., 1987). Personal distress is associated with self-defense mechanisms, where individuals in this context are more likely to alleviate their own discomfort rather than attend to others' needs.

In the theoretical framework, the "emotion regulation theory" can partially explain the role of personal distress in investment situations (Escobar-Anel & Jiao, 2024; Gross, 1999). Studies suggest that when facing risks or uncertainties in ESG investments, investors experiencing higher levels of personal distress may choose to avoid high-risk projects or opt for investment

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strategies with more certain short-term returns. The motivation behind this behavior is more to reduce emotional burdens and protect oneself, rather than pursuing social value.

Empathic Concern and Its Impact on ESG Investments

Enhancing Social Responsibility

Empathy concern, as an other-oriented emotional response, can significantly enhance investors' sensitivity to social issues and inspire their recognition of social responsibility. This emotional mechanism helps investors shift their focus from short-term financial returns to more long-term and broader social benefits. It enables a deeper understanding of the importance of social issues and transforms this awareness into investment behavior. Research by Ruedy and Schweitzer (2010) shows that empathy concern can enhance an individual's moral judgment, making them more likely to support actions that directly contribute to social welfare in their decision-making. Studies indicate that empathy concern is highly aligned with the core philosophy of ESG investing—creating positive social and environmental impacts through investments. Moreover, investment decisions driven by empathy concern provide strong support for achieving the global sustainable development goals (SDGs).

Empathy concern not only stimulates investors' attention to traditional environmental issues but also leads to heightened sensitivity to more complex social issues. This capability enables investors to identify a wide range of investment opportunities in the ESG field and prioritize projects with high social value. Investors with high empathy concern not only focus on solving current social problems but also demonstrate a commitment to long-term social and environmental improvements. Amel-Zadeh and Serafeim (2018) note that empathy concern encourages investors to prioritize projects that generate long-term social returns. By focusing on these high-value areas, investors can meet social responsibility goals while benefiting from long-term financial returns.

Fostering a Long-Term Perspective

Empathy concern can effectively prompt investors to assess the potential benefits of investment projects from a long-term perspective. Compared to short-term financial returns, investors with high empathy concern are more likely to focus on the long-term social and environmental impacts of projects. This focus drives them to prioritize ESG projects that can generate sustained social value. This long-term perspective not only reflects the investors' commitment to social and environmental improvement but also helps optimize the overall sustainability of their investment portfolios.

Research by Amel-Zadeh and Serafeim (2018) indicates that ESG investments provide long-term value to investors through risk management and enhanced social benefits, with investors possessing high empathy concern being more receptive to this logic. Empathy concern helps investors overcome the impact of short-term market fluctuations on decision-making, allowing them to focus more on long-term goals. Studies show that ESG investors are often able to identify and mitigate risks associated with market fluctuations through a long-term perspective, and those with high empathy concern are more steadfast in supporting projects that may take longer to yield benefits (Iazzolino et al., 2023). By incorporating ESG factors, investors can significantly improve the long-term stability of their portfolios, and those with high empathy concern are better able to visualize these potential gains through a long-term perspective, thus increasing their willingness to support ESG projects.

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The long-term orientation of empathy concern in investor behavior is also reflected in the recognition of social value. Investors with higher empathy concern are more likely to support projects that can significantly improve social structures or protect the environment, even if the economic benefits of these projects may take time to materialize. This long-term commitment suggests that empathy concern plays an important role in guiding investors to choose projects with high social value.

In conclusion, empathy concern strengthens investors' focus on long-term social and environmental impacts, helping them overcome the limitations of short-term returns and prioritize ESG projects with sustained value. This capability not only enhances investors' support for ESG investments but also optimizes their comprehensive awareness of social and environmental benefits, providing a strong emotional driver for sustainable investing.

The Impact of Personal Distress on ESG Investments

The influence of personal suffering on individual decision-making exhibits a relatively complex mechanism. Generally, moderate personal suffering promotes the emergence of altruistic behavior. However, when personal suffering exceeds an individual's threshold of tolerance, it has the opposite effect and suppresses altruistic behavior.

The Influence of Personal Suffering on Investors' Support for ESG Projects

When investors experience moderate personal suffering, it can trigger empathy, thereby enhancing their attention to social responsibility, particularly in investment decisions, manifesting as greater support for ESG (Environmental, Social, and Governance) projects. In a situation with a relatively lighter emotional burden, individuals are often better able to regulate their emotions and understand the plight of others through empathy, leading to more active participation in socially responsible investment activities (Goetz et al., 2010). This emotional response is not merely about managing one's own emotions, but also about identifying and attending to the emotions of others.

When investors are in a state of moderate personal suffering, they are more likely to focus on social and environmental issues. In this emotional state, they tend to make investment decisions that contribute to improving the conditions of others. This emotion-driven investment behavior is directly related to empathy, as individuals experiencing moderate personal suffering are more likely to resonate with the suffering of others, thereby fostering a positive attitude towards socially responsible investments. Research has shown that moderate suffering can promote individuals' concern for the welfare of others, especially in situations involving social and environmental responsibilities, where this emotional resonance can translate into actual investment actions (Dunn et al., 2008).

Furthermore, moderate personal suffering may encourage individuals to adopt more socially responsible strategies in decision-making, especially when faced with complex ESG investment choices. Investors' emotional regulation abilities and sensitivity to others' needs make them more likely to choose projects that not only yield economic returns but also have a positive impact on society and the environment. Emotional resonance under moderate suffering enables investors to align their anxiety with a sense of social responsibility, motivating them to make more responsible choices within the ESG domain (Zaki, 2014).

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Thus, moderate personal suffering not only promotes investors' focus on social responsibility but also increases their engagement in ESG investments. This behavior reflects the key role of emotional regulation and empathy in driving socially responsible investment decisions.

The Impact of Personal Suffering on Investors' Obstructive Decisions in ESG Projects

In the real world, as global issues such as environmental pollution, climate change, poverty, and social inequality become increasingly severe, both businesses and individuals are facing greater social responsibilities. ESG (Environmental, Social, and Governance) investment requires investors to not only focus on economic returns but also comprehensively assess a company's fulfillment of its social and environmental responsibilities. This evaluation process requires investors to endure a certain level of uncertainty and risk when confronting complex social and environmental issues. However, research shows that when investors experience higher levels of personal suffering, they often choose to avoid investment decisions that involve complex social and environmental problems, opting instead for projects with lower risk and more certain short-term returns.

When investors face complex decision-making situations or high uncertainty in ESG projects, high levels of personal suffering tend to drive them to avoid these decisions and focus on short-term goals to reduce their discomfort. High levels of personal suffering significantly suppress altruistic behavior, causing individuals to focus more on alleviating their own emotional stress rather than actively participating in actions that improve the circumstances of others (Eisenberg et al., 1989; Raposa et al., 2016). Emotional regulation theory suggests that when individuals experience negative emotions (such as pain, anxiety, etc.), they employ various coping mechanisms to reduce emotional distress. High levels of personal suffering make individuals more likely to avoid complex social responsibility projects that require long-term emotional investment, turning instead to projects that offer lower risk and more certain returns. This avoidance behavior reflects the need for emotional regulation, as individuals seek to maintain psychological balance by reducing emotional burdens (Gross, 2002).

The tendency to avoid suffering often leads to "short-sighted" decisions. Short-term decisions are often focused on pursuing immediate financial returns, while neglecting the long-term social value and sustainability needs. In ESG investments, avoidance of suffering may lead investors to prioritize short-term economic returns, ignoring the assessment of environmental and social impacts, thereby investing in companies that fail to fulfill their social responsibilities and missing the opportunity to invest in businesses that can actively drive social change and environmental protection. The harm of this "short-sighted" behavior is not only reflected in the limitations of investment decisions but also exacerbates the accumulation of social problems. In the long run, such avoidance of responsibility may worsen social and environmental crises and hinder the achievement of global sustainable development goals (Sullivan & Mackenzie, 2017).

The psychological mechanism of suffering avoidance may also lead individuals or organizations to fall into a state of "moral numbness." Moral numbness refers to the diminishing awareness of social and environmental issues, even leading to neglect or indifference toward these issues. After prolonged avoidance behavior, individuals may gradually lose sensitivity to social responsibility, neglecting their role and responsibility in solving social problems (Zaki, 2014). Especially when facing global social and environmental problems, if individuals and organizations fail to overcome the psychological barriers of

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avoiding suffering, they may develop a dulled perception of these issues, ultimately forming a disregard for social responsibility, which in turn affects the fulfillment of those responsibilities.

To counteract the negative effects of suffering avoidance, a series of measures are needed to promote individuals and businesses' fulfillment of social responsibilities. First, education and advocacy can enhance investors' awareness of social responsibility and environmental issues, helping them understand that social responsibility is not only a moral obligation but also a necessary condition for promoting sustainable development. Second, policy guidance can encourage businesses to focus on environmental protection and social welfare while pursuing financial returns, using incentives to drive corporate social responsibility. For example, the government can offer tax breaks or other incentives to companies that fulfill their social responsibilities, encouraging them to consider long-term social benefits in their investment decisions.

Conclusion

This paper explores the impact of two mechanisms—empathic concern and personal suffering—on ESG investment decisions by analyzing the role of emotional empathy. The study demonstrates that empathic concern and personal suffering have significant but contrasting effects on investor behavior, respectively promoting and hindering the development of ESG investments.

Empathic concern, as an other-centered emotional response, significantly enhances investors' sense of social responsibility and long-term perspective, making them more likely to prioritize projects that deliver social and environmental benefits. Empathic concern also fosters collaboration between investors, companies, and stakeholders, providing a psychological foundation for the successful implementation of ESG projects. This emotional mechanism is crucial in promoting and optimizing sustainable investment.

In contrast, personal suffering, as a self-centered emotional response, often leads to anxiety and discomfort when excessive. Low levels of personal suffering can encourage investors to engage in ESG investments, while high levels of personal suffering tend to drive investors to avoid high-risk or complex decisions, focusing instead on short-term financial returns, thereby reducing their support for the long-term social value of ESG projects.

This paper emphasizes that by improving information transparency, providing psychological support, and designing targeted interventions, it is possible to enhance empathic concern while keeping personal suffering within a moderate range. This approach can mitigate the negative impact of personal suffering on investment behavior, thus more effectively guiding investors to support ESG projects. Future research can further explore the role of emotional empathy mechanisms in different investment contexts and their relationship with investment performance, providing theoretical and practical support for promoting sustainable investment and optimizing investment behavior.

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