A Literature Study on the Impact of ESG Information Disclosure Quality on the Value of Listed Companies

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Abstract. This paper reviews the existing literature on the impact of Environmental, Social, and Governance (ESG) information disclosure quality on the value of listed companies. In recent years, ESG has become an increasingly important indicator for investors to evaluate the long-term sustainable development capabilities of companies. High-quality ESG information disclosure helps reduce information asymmetry, enhancing investor confidence and improving capital market efficiency. The review of current research shows that ESG disclosure quality, based on well-established frameworks such as the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), and Task Force on Climate-related Financial Disclosures (TCFD), is significantly positively correlated with key financial indicators, including company valuation, cost of capital, and profitability. However, there are also critical viewpoints regarding ESG disclosure, such as inconsistent disclosure standards, the prevalence of "greenwashing" phenomena, and debates surrounding the financial relevance of ESG information. Despite these concerns, this paper underscores the necessity of establishing a unified global ESG information disclosure standard. Such standardization would enhance the consistency, transparency, and reliability of ESG data, providing investors with more accurate and valuable information for informed decision-making.

Keywords: ESG Information Disclosure Quality, Company Valuation, ESG Rating.

1. Introduction

With the development of business globalization, ESG (environmental, social, and governance) factors have gradually become an important tool and indicator for investors to evaluate whether a company has long-term sustainable development. Through the ESG information disclosed by listed companies, investors can understand the internal management and social responsibility of the company and influence the decision-making process and confidence of investors. For this reason, in the current market, investors, regulators, and other stakeholders have higher and higher requirements for the quality of company information disclosure. The impact of the quality of ESG information disclosure on the value of listed companies has also become a research topic of widespread concern in the industry.

In the past decade, ESG information disclosure has gradually become a regulated must in many markets from an optional option. This change is partly due to the increase in investors' demand for corporate information transparency and social responsibility in the market. High-quality ESG information disclosure is generally believed to help reduce the problem of information asymmetry and enhance investors' trust in the company in the market, which may affect the value of the company.

Although the existing literature has widely discussed the significance of ESG information disclosure, there are still problems with uneven research methods and data on how the quality of ESG information disclosure specifically affects the value of listed companies. Therefore, analyzing only individual studies may not reveal its impact in a comprehensive manner. This article will integrate existing research results through a research review, and systematically analyze the published literature to find common conclusions on the impact of ESG information disclosure quality on the value of listed companies.

This study will focus on the quality standards of ESG information disclosure, commonly used ESG evaluation methods, and the specific role of ESG information disclosure quality in investment decisions and corporate market value. By summarizing and integrating these studies, it is hoped that the research results of this article can provide investors and companies with clearer theoretical guidance and provide reference and inspiration for future research on this topic.

2. Reasons and Importance of the Rise of ESG

ESG refers to the three major factors that need to be considered in the investment process, namely: environment (E-such as climate change and resource management), society (S-such as human rights and labor standards), and governance (G-such as shareholder rights and corporate management).

ESG, as a popular investment topic at present, was first systematically proposed in 2004. For institutions and investors, ESG is an important factor to consider when making long-term investment decisions. With the proposal of the United Nations Sustainable Development Goals, it has received increasing attention.

With the development of human society, the problems of climate change, resource shortages and social inequality are becoming increasingly serious. Investors and companies have begun to realize the importance of considering these issues for the long-term survival and financial performance of companies. With the promulgation of ESG standards and the development of related research, ESG has become increasingly attractive to investors. Fatemi pointed out in his report that ESG indicators have a significant impact on corporate value under high-quality disclosure. More and more investors use ESG as an important indicator to judge whether a company has long-term investment value and sustainable development [1]. Giese also pointed out in his report that ESG is no longer just a simple brand management tool but is also regarded as a key indicator that can effectively improve corporate risk management and improve long-term performance. Investors are paying more and more attention to the comprehensive impact of ESG indicators on companies and incorporating ESG into the framework of investment decisions [2]. In a more recent study, Broadstock found that during financial crises (such as COVID-19), companies with high ESG performance have higher resilience in adversity. As a result, it has attracted more attention and support from investors, which further emphasizes the important role of ESG indicators in risk management and long-term returns [3].

3. Regulatory Background and Market Demand for ESG Information Disclosure

With the development of ESG standards and increasing attention, governments around the world have gradually promulgated more complete ESG information disclosure regulatory systems, requiring companies to disclose their impacts and strategies in environmental, social and governance more transparently. In November 2019, the European Union issued the EU Sustainable Finance Disclosure Regulation (SFDR). In the regulation, the EU clarified that its purpose of increasing the transparency of financial market participants in ESG (environment, society and governance) is to promote sustainable investment and better guide capital flows in the market and support sustainable development projects and companies. The Sustainable Finance Disclosure Regulation will take effect in March 2021, which puts forward a series of information disclosure requirements for financial market participants and practitioners [4].

From the perspective of market demand, investors and stakeholders require companies to provide more transparent disclosures to help them better assess the company's ESG risks and opportunities. This demand has directly promoted the development of ESG reporting and evaluation agencies. Through ESG reporting and assessment agencies, investors and stakeholders can obtain more standardized information for easy comparison and evaluation.

As investors and regulators increase their demand for ESG information transparency, various ESG disclosure standards and frameworks have emerged. The main frameworks include the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the Task Force on Climate-related Financial Disclosures (TCFD), and the recently established unified standards of the International Sustainability Standards Board (ISSB). These standards and frameworks have different levels of popularity around the world and are widely used in different regions and industries.

3.1. GRI (Global Reporting Initiative)

GRI is the most widely used ESG disclosure framework in the world. Its standards cover multiple areas such as environment, society and governance and are widely applicable to all industries. GRI standards allow companies to customize their disclosure content during the disclosure process to improve the relevance and transparency of information.

3.2. SASB (Sustainability Accounting Standards Board)

SASB provides specific ESG indicators for 77 different industries, mainly for financial-related information disclosure. This standard is highly accepted in the North American market, especially by investors who focus on long-term value [5]. SASB's standards focus on the financial materiality that investors care about, ensuring that ESG information is directly related to the company's financial performance.

3.3. TCFD (Task Force on Climate-related Financial Disclosures)

TCFD focuses on climate change-related risks and recommends that companies disclose from four aspects: governance, strategy, risk management, and indicators and targets. TCFD has been supported by regulators and financial institutions in many countries around the world, especially in industries with greater impacts of climate change [6]. More and more companies are adopting TCFD to ensure the transparency and effectiveness of climate risk management.

3.4. ISSB (International Sustainability Standards Board)

ISSB is a new standard under the IFRS Foundation that is integrating elements of TCFD and SASB to establish a global unified ESG disclosure standard. The emergence of this standard provides a unified reference for regulators in various countries and is expected to promote consistency in ESG disclosure [7].

4. The Impact of Information Disclosure Quality on Investor Decision-Making and Company Valuation

High-quality ESG information disclosure can reduce the problem of information asymmetry to enhance the confidence of investors and stakeholders in the company, thereby reducing the cost of capital. And even when the capital market is in a turbulent state, companies with good ESG ratings are more attractive to investors and can maintain their valuations than other companies [8]. High-quality information disclosure can also help companies improve their reputation and bring long-term performance growth to the company. Clarkson found in her research that when a company has good environmental performance, the company is more inclined to disclose detailed environmental information. This practice can not only enhance the transparency of the company's information disclosure, but also demonstrate the company's sustainable development strategy, thereby enhancing the company's public image and reputation. Generally, a good reputation helps to increase the trust of stakeholders and investors in the company, and in the long run, it can improve the company's financial performance and shareholder value [9].

More and more empirical studies have shown that high-quality GRI report ratings can not only enhance the trust of companies among investors, but also form a positive correlation with company valuations in multiple dimensions such as capital cost, market performance, and investor holding behavior. The following is relevant quantitative research support:

The study by Albuquerque et al. pointed out that companies with high GRI ratings are more likely to obtain low-cost financing, especially debt financing [10]. The study found that the debt cost of companies with high ESG ratings is on average 0.5-1 percentage point lower than that of companies with low ratings. This is mainly because investors believe that companies with high GRI ratings have lower risks and stronger risk management capabilities [10].

In an empirical analysis of US listed companies, Chava found that companies with higher GRI ratings had a significantly higher stock price growth rate over five years than companies with low ratings, with an average annual compound growth rate of about 7% [11]. This result shows that high-quality ESG information disclosure can increase the long-term growth potential of a company's stock price, thereby improving the company's valuation [11].

In the study of Giese et al. (2019), it was found that there was a significant positive correlation between ESG ratings (especially GRI ratings) and the company's price-to-earnings ratio and price-to-book ratio. Highly rated companies tend to attract long-term investors and enjoy an average valuation premium of 10%-15%, which is mainly reflected in investors' trust in the company's future development potential [2].

Krueger studied the attractiveness of ESG information disclosure to institutional investors. The results showed that companies with high GRI ratings are more likely to attract long-term institutional investment, especially pension funds and insurance companies [12]. Statistical results show that the proportion of institutional holdings in companies with high-quality ESG disclosures is about 5-7% higher than that of low-rated companies, which has a positive impact on company valuations [12].

Amel-Zadeh and Serafeim studied the relationship between ESG ratings and risk-adjusted returns, and the results showed that high-rated companies performed better during periods of economic uncertainty [13]. Specifically, during financial crises (such as during COVID-19), the average risk-adjusted return of high GRI-rated companies was about 3-5% higher than the market. This suggests that high-quality GRI report ratings can provide additional value support to companies during periods of market volatility [13].

Liang and Renneboog studied data from European companies and found that companies with high GRI ratings had significantly better profitability than low-rated companies [14]. Specifically, the net profit margin of high-rated companies was about 12% higher than that of low-rated companies on average over three years. This increase in profitability not only directly increased company valuations, but also made companies more competitive in the industry [14].

The above studies show that there are multiple correlations between GRI report ratings and company valuations. High-rated GRI reports can bring higher market value to companies by reducing capital costs, increasing long-term stock prices, and enhancing their attractiveness to institutional investors. In addition, these quantitative studies show that high-quality GRI ratings not only have a positive effect in a good market environment, but also show stable support for corporate financial performance during economic fluctuations.

5. Critical Research on ESG Information Disclosure

Although ESG information disclosure has played a positive role in enhancing corporate information transparency and improving corporate valuation, there are still many critical opinions, mainly including the consistency of standards, the authenticity of information, and the uncertainty of information disclosure on financial relevance:

5.1. Diversity and Consistency of Disclosure Standards

Currently, there are multiple ESG disclosure frameworks in the market, such as GRI, SASB and TCFD, which leads to differences in disclosure content, methods and quality among companies. Hassan and Romilly pointed out that the lack of unified disclosure standards will lead to a decrease in information comparability, increase the complexity of investors' interpretation of ESG information of different companies, and ultimately affect the accuracy of investors' decisions [15]. This makes even highly rated GRI reports face inconsistencies, limiting investors' understanding of the company's true ESG performance.

5.2. Authenticity of Information Disclosure and "Greenwashing" Phenomenon

Some companies may use ESG reports to "greenwash", that is, exaggerate or misrepresent their ESG performance to gain market recognition. Such false disclosures not only mislead investors, but may also damage the company's reputation. Laufer found that more than 30% of companies have "greenwashing" in their ESG reports, especially in the disclosure of environmental and social responsibilities [16]. This makes it impossible for investors to effectively distinguish the company's true ESG performance, thereby increasing the risk of investment decisions.

5.3. Controversy over Financial Relevance and Cost-Benefit Asymmetry

Although many studies have shown that high-quality ESG information disclosure has a positive impact on corporate valuation, some scholars have questioned its financial relevance. Garcia et al. found that although companies with high GRI ratings performed well in the short term, their long-term financial benefits were not significant, especially in industries where the relationship between ESG and the company's core business was weak [17]. This suggests that for some industries and companies, the financial relevance of ESG information disclosure is not strong and may lead to improper allocation of corporate resources [17]. High-quality ESG information disclosure is usually accompanied by high compliance costs, which can be a heavy burden, especially for small and medium-sized enterprises. Doni et al. pointed out that companies that implement high-standard ESG disclosures such as GRI face an average annual compliance cost of up to 1-2% of the company's total revenue, which may reduce investment in other core businesses for companies with limited financial resources, thereby affecting the company's overall competitiveness [18].

Overall, although high-quality ESG information disclosure has a significant effect on improving company valuations and enhancing investor confidence, issues such as consistency of disclosure standards, information authenticity, financial relevance, and cost-effectiveness still need further research and improvement. Future policies should be committed to unifying standards, strengthening supervision, and avoiding the occurrence of "greenwashing" to ensure the authenticity and reliability of ESG disclosure information.

6. Conclusion

Overall, as investors and markets increase their demand for ESG information transparency, ESG information disclosure has gradually evolved from an optional option to a mandatory requirement in many markets. Existing research and standards (such as GRI, SASB, TCFD, etc.) provide companies with a framework for disclosing their ESG performance, but the existence of different standards leads to problems with consistency and comparability of disclosure. High-quality ESG information disclosure, especially reports based on GRI standards, can help enhance investor trust, reduce capital costs, and enhance brand reputation, thereby having a positive impact on company stock prices and valuations. However, ESG disclosure also faces challenges such as "greenwashing" and financial relevance disputes. Future research and policies should focus on establishing a global unified disclosure standard to further improve the transparency and reliability of ESG information and provide more valuable guidance for investors and companies.

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