A Review of the Evaluation and Impact of ESG Information Disclosure

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Abstract. This paper examines the disclosure performance of ESG (environmental, social, and governance) practices in enterprises, exploring their impact on corporate market valuation, investor trust, risk management, and financial performance. It delves into the transparency, quality, and consistency of ESG information and how these factors influence corporate outcomes. The paper begins by summarizing the current evaluation criteria for ESG information disclosure, offering an overview of existing standards and practices. It then investigates the key factors that affect ESG disclosure, including the policy environment, corporate characteristics, and organizational structure. Through this analysis, the paper highlights the positive effects of high-level ESG disclosure on a company's market recognition, investment attractiveness, and long-term sustainable development. Companies that adopt transparent and consistent ESG disclosure practices are better positioned to enhance investor confidence, manage risks more effectively, and achieve stronger financial performance. The findings from this study offer valuable insights into the importance of robust ESG disclosure and provide a reference for optimizing the standardization of ESG reporting practices in the future.

Keywords: ESG disclosure, corporate performance, transparency, sustainable development.

1. Introduction

With the increasing global focus on sustainable development, environmental, social and governance (ESG) disclosures have become an important manifestation of corporate transparency and responsibility. More and more investors and stakeholders are looking to companies not only for financial performance, but also for environmental protection, social responsibility and governance. Therefore, the quality and transparency of corporate ESG information disclosure has gradually become an important indicator for the market to evaluate the value of a company. In recent years, studies have found that high-quality ESG information disclosure can not only attract investors and enhance market confidence, but also effectively enhance corporate image and enhance its influence in society and the industry. However, the current standards and applications of ESG information disclosure have not yet been fully unified, resulting in differences in the depth and granularity of corporate disclosure. The purpose of this article is to systematically analyze the performance of enterprises in ESG information disclosure, and discuss its impact on investors' decision-making and market response, so as to provide a reference for improving the standardization of ESG information disclosure in the future.

At present, ESG research in China is in a stage of rapid development, especially with the vigorous promotion of national policies and the positive response of enterprises. Research hotspots include ESG ratings, information disclosure, and green investment [1]. In China, an ESG rating system is gradually taking shape, and many local rating agencies (such as China Securities Index, Wind Information, etc.) provide different rating standards to support the ESG performance assessment of enterprises [2]. In terms of ESG investment, China's green financial products such as green bonds and ESG funds are also expanding rapidly, and as of June 2023, China's ESG public funds have reached 592 billion yuan [3]. Although ESG research in China is generally on the rise, research in the academic field is relatively fragmented and has not yet formed a unified standard. Future research directions are likely to focus more on improving ESG disclosure standards, studying the impact of ESG factors on corporate financial performance, and promoting further participation of investors and regulators. This article takes a deep dive. First of all, through extensive reading of the literature, the connotation and measurement criteria of ESG information disclosure performance are summarized and sorted out, so as to clarify the mainstream concepts and standards in the academic community. Secondly, the influencing factors of ESG performance are analyzed from two aspects: internal factors (such as corporate development characteristics and internal organizational structure) and external factors (including economic policies, government promotion, and technology perspectives). Thirdly, the economic utility of ESG performance is discussed from the perspectives of corporate performance, corporate risk, corporate value, and stock liquidity. Finally, the previous content is summarized and some suggestions are put forward. This study will help scholars clarify the relevant content of ESG performance and lay a theoretical foundation for subsequent research.

2. Evaluation Indicators for ESG Information Disclosure

2.1. International Mainstream ESG Evaluation Standards

MSCI ESG Ratings: Analyze the potential environmental, social and governance risks and opportunities of enterprises with risk management at the core. Its approach emphasizes the weighting of key issues in the industry, enabling horizontal comparisons and risk identification. It is often used by large institutional investors to optimize their portfolios. For example, manufacturing companies demonstrate supply chain risk management capabilities through their ratings to attract investors looking to avoid risk. Compared to other rating systems, MSCI focuses more on industry-specific issues and risk assessment, and is particularly applicable to investment strategies in high-risk areas.

Dow Jones Sustainability Index (DJSI): focuses on the long-term strategy and value creation of enterprises, and comprehensively evaluates economic performance, environmental management and social contribution. Many multinationals, such as consumer goods giants, attract long-term investors by participating in DJSI to showcase their green supply chain management capabilities and sustainable innovation strategies. 1. MSCI ESG Ratings: Analyze the potential environmental, social and governance risks and opportunities of enterprises with risk management at the core. Its approach emphasizes the weighting of key issues in the industry, enabling horizontal comparisons and risk identification. It is often used by large institutional investors to optimize their portfolios. For example, manufacturing companies demonstrate supply chain risk management capabilities through their ratings to attract investors looking to avoid risk. Compared to other rating systems, MSCI focuses more on industry-specific issues and risk assessment, and is particularly applicable to investment strategies in high-risk areas.

The greater focus on corporate sustainability strategies contrasts sharply with MSCI's risk identification logic. DJSI is more suitable for businesses that focus on brand image and long-term value enhancement.

Bloomberg ESG Ratings: With data transparency and real-time updates at its core, it provides investors with efficient analysis through publicly disclosed information. Its extensive database provides a convenient tool for financial analysts and fund managers. The financial industry in particular favors Bloomberg Ratings to quickly screen ESG-compliant investments. For example, new energy companies use the Bloomberg platform to disclose carbon emissions and energy efficiency metrics in real time to attract ESG fund investment. Compared to MSCI and DJSI, Bloomberg places more emphasis on data transparency and comparability, which is suitable for investors who need to make quick decisions.

FTSE Russell ESG Ratings: Combining ESG factors and financial performance, it focuses on the profitability of enterprises in sustainable development, emphasizing the integration of ESG indicators and financial models. Chemical companies use FTSE Russell to analyze the impact of green technology investments on financial returns and optimize strategic decisions. FTSE Russell places more emphasis on the direct impact of ESG factors on profitability than MSCI and DJSI, making it suitable for financially oriented investors.

CDP (Carbon Disclosure Project): focuses on the environmental dimension, covering three major areas: carbon emissions, water resources and forest protection. Many mining and energy companies use CDP to disclose their green transition progress and carbon neutrality goals to meet regulatory and market requirements. For example, a mining company uses CDP data to demonstrate its efforts to reduce carbon emissions in order to obtain sustainable funding.

With a focus on environmental disclosure, CDP complements other comprehensive rating systems and is suitable for industries that rely heavily on environmental performance.

2.2. ESG Standards in China

CSI ESG Ratings and Shanghai and Shenzhen Stock Exchange Guidelines: The CSI ESG rating combines the characteristics of the industry and emphasizes the social benefits of state-owned enterprises; The Shanghai and Shenzhen Stock Exchanges' ESG disclosure guidelines enhance the transparency of listed companies. Energy companies will disclose poverty alleviation projects and policy responsiveness through CSI Ratings to enhance their social responsibility image. Leading manufacturing enterprises demonstrate their green production models through the platforms of the Shanghai and Shenzhen stock exchanges, in line with international standards. The policy-driven nature of China's rating system is significant, which is different from the market-oriented nature of international ratings.

3. Factors Influencing the Performance of ESG Disclosures

3.1. External Factors

External factors such as policy environment, government support, and technological innovation, as well as internal factors such as corporate characteristics and organizational structure, all affect the performance of enterprises in ESG information disclosure. First, economic policy fluctuations increase the cost of compliance for companies, making it possible for companies to reduce their investment in ESG resources during periods of frequent policy changes, especially in environmental governance and community responsibility [4]. As such, policy continuity and transparency are critical to a company's ESG performance. In addition, as governments prioritize sustainability and the green economy in policymaking, there will be increased institutional pressure on companies, which in turn will push them to increase transparency in ESG disclosures [5]. Conversely, when the economic orientation is biased towards short-term growth, companies' ESG disclosures are weakened [5].

Government support also plays a key role, with tax breaks, subsidies and incentives providing effective incentives for companies to fulfill their ESG responsibilities [6]. For example, companies are often more inclined to disclose their environmental management measures and progress after receiving government subsidies. At the same time, a sound legal and regulatory framework can increase enterprises' attention to the compliance and accuracy of ESG information disclosure, and reduce the occurrence of non-compliance. Technological innovation also plays an important role in ESG disclosure. The immutability and transparency of blockchain technology significantly enhance the credibility of ESG disclosure data, especially in supply chain management, which enables real-time data sharing. In addition, technologies such as big data and artificial intelligence can help enterprises conduct real-time monitoring, risk prediction and compliance analysis of environmental data, thereby improving the efficiency and accuracy of information disclosure. Tian and Sun explore how emerging technologies such as artificial intelligence and blockchain can enhance the efficiency and transparency of ESG disclosures. The paper argues that new technologies can help companies process ESG data more efficiently, improve the quality of disclosure, and ultimately enhance corporate governance and social responsibility performance [7].

3.2. Internal Factors

First of all, the size of the company has a direct impact on ESG information disclosure. Due to their abundant resources and social influence, large enterprises are usually more inclined to make comprehensive and detailed ESG information disclosures. On the one hand, the financial and human resources of large enterprises can support them to conduct more in-depth research and solve complex ESG issues. On the other hand, large enterprises are also more susceptible to external supervision and public opinion, so they face greater pressure to disclose information. In China, for example, energy giants like Sinopec have not only disclosed their efforts in carbon emissions and energy conservation and reduction, but have also announced specific annual environmental targets in response to concerns about their environmental responsibilities [8]. For SMEs, while they also want to improve ESG transparency, limited resources often limit their disclosure.

Second, industry attributes significantly affect the content and focus of ESG disclosures. High-polluting industries, such as mining and chemicals, often face higher disclosure requirements and social responsibility pressures due to their potential harm to the environment. For example, Chalco, as a representative of the mining industry, needs to not only disclose specific data on environmental governance to the outside world, but also emphasize how to protect the ecosystem while exploiting resources. In contrast, ESG disclosure in low-polluting industries such as information technology focuses more on social responsibility and governance structures, and the pressure on the environmental dimension is relatively small. Therefore, the characteristics of different industries directly determine the differentiated needs of ESG information disclosure.

The stage of a company's development will also affect its ESG disclosure strategy. Emerging companies are often reluctant or unable to make detailed disclosures due to limited resources and low market attention, while mature companies often choose to disclose voluntarily to enhance their corporate image and enhance market trust. For example, Mindray mainly focused on R&D investment in the early stage of its development, but as the company expanded and the attention of the capital market increased, its ESG report became more comprehensive, covering multiple dimensions such as employee training and supply chain responsibility [9]. The stage of a company's development often determines its attitude and commitment to ESG disclosure.

In addition, the organizational structure of enterprises has a profound impact on ESG information disclosure. Executives' awareness of social responsibility and the independence of the board are two key factors. Executives with a strong sense of social responsibility tend to push companies to take proactive measures in areas such as environmental protection and social equity, while increasing information disclosure. Taking Country Garden as an example, its management's investment in poverty alleviation projects and detailed disclosure of relevant information fully reflect the role of senior executives' sense of responsibility [10]. The independence and diversity of the board also have an impact on the quality and credibility of ESG disclosures. Some studies have shown that companies with more independent directors are more likely to respond to the needs of their stakeholders in their disclosures; A diverse board of directors can examine corporate responsibility from different perspectives and promote the improvement of the quality of disclosure.

The shareholding structure is also a key part of the internal factor. The shareholding ratio of institutional investors often has a significant impact on corporate ESG disclosure. Institutional investors are more inclined to support high-quality ESG disclosures due to their emphasis on long-term investment returns. For example, in the A-share market, companies with a large number of institutional investors, such as Vanke, have ESG reports that are not only informative, but also cover specific content of dialogue with stakeholders, fully demonstrating the influence of institutional investors. In contrast, family-controlled companies may be more conservative in ESG information disclosure due to their focus on short-term profits.

4. The Economic Effect of ESG Disclosure

The economic effect of ESG information disclosure in modern enterprises has become a hot topic of academic research and practical attention. High-quality ESG disclosures are not only part of corporate social responsibility, but also bring important economic benefits in many ways. Chen and Li (2021) examined the financial performance implications of ESG disclosures in emerging markets.

They found that higher ESG disclosures promote corporate financial performance, especially in highly transparent and well-regulated markets, where ESG disclosures have a more significant positive effect on financial performance [11]. First, good ESG disclosures significantly increase the value of a company, which is reflected in improved valuation and financial performance. By disclosing ESG-related information, companies can demonstrate their active practices in environmental protection, social responsibility and corporate governance to investors, and enhance their recognition in the capital market, thereby attracting more long-term investors, especially ESG investors, to support stock price stability. In addition, transparent ESG disclosures enhance a company's brand image, market competitiveness and market share. At the same time, high-performing companies tend to be more stable in terms of profitability and cash flow, which further supports the increase in corporate valuations.

Second, ESG disclosure optimizes enterprise risk management. Wang and Zhang discussed the relationship between ESG disclosure and the risk of corporate stock price crash, pointing out that ESG disclosure can effectively reduce the risk of crash in companies with strong governance structures [12]. Through disclosure, companies are able to identify, monitor and respond to risks related to environmental, social and governance (ESG) to effectively reduce operational and financial risks. For example, companies can demonstrate their environmental risk control initiatives to reduce compliance risks arising from changes in policies and regulations [13]. At the same time, disclosure of companies' input on labor rights and community relations can help improve relationships with stakeholders and reduce potential reputational and compliance risks [14]. High-quality corporate governance disclosures indicate that the company has a good governance structure, which helps to reduce financial fraud and internal management issues, thereby reducing the internal operational risk and external reputational risk of the enterprise [15].

Finally, adequate ESG disclosures are closely related to equity liquidity. Liquid stocks typically exhibit lower transaction costs and higher market demand, while high-quality ESG disclosures can attract more investors, especially institutional and long-term investors. As more and more institutional investors incorporate ESG factors into their investment decisions, increased investor demand is also driving liquidity in corporate stocks. At the same time, companies can reduce information asymmetry and improve transparency by disclosing ESG information, so that investors can be more confident in decision-making, which in turn increases the market liquidity of stocks. As a result, ESG disclosures play a crucial role in enhancing corporate value, optimizing risk management, and improving stock liquidity.

5. Conclusion

After systematically combing the existing literature, it can be found that although the research on ESG information disclosure in China continues to advance and the research scope is gradually expanding, it still faces a series of problems that need to be dealt with urgently in the process of practical application. Among them, the more prominent shortcomings are mainly the following two points: First, the evaluation criteria lack uniformity. There are large differences in ESG indicators in different fields and industries, and there is no unified evaluation standard, which makes ESG disclosure data less comparable among enterprises. As a result, it not only reduces the reference value of investors and regulators, but also hinders the comparison of ESG performance and the promotion of practices among companies. Second, the measurement indicators need to be further refined. Existing ESG metrics are often broad, and there is a lack of targeted metrics for specific industries or fields, which makes it difficult to effectively reflect the actual situation of enterprises in specific ESG areas. For example, there are significant differences between the environmental disclosure standards of high-carbon emission industries and the social responsibility standards of the technology industry, and these differences are not yet fully integrated into the existing indicator system. In order to further promote the research and practice of ESG information disclosure, future research can focus on the following directions. First, improve the ESG measurement system. Future research should focus on building a more scientific and unified ESG measurement system, and optimize the ESG indicators specific to different fields and industries to make them more comparable and practical. At the same time, with the help of emerging technologies such as big data and blockchain, the collection and processing efficiency of ESG data can be improved, thereby improving the accuracy and transparency of data. Second, focus on the micro impact of market reactions. Most of the current research focuses on the macro effects of ESG disclosure, and not enough attention is paid to the market response at the micro level. In the future, we can deeply explore the specific impact of corporate ESG information disclosure on investors' decision-making, corporate stock price fluctuations and other micro-market reactions, so as to provide enterprises and investors with a more accurate decision-making basis.

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