

ESG Disclosure and Shareholder Wealth Creation in Emerging Markets: Evidence from BRICS and Beyond

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Abstract:

This study investigates the relationship between Environmental, Social, and Governance (ESG) disclosure quality and shareholder wealth creation in emerging market economies. Using a panel dataset of 1,248 publicly listed firms across ten emerging markets—Brazil, Russia, India, China, South Africa, Indonesia, Mexico, Turkey, Poland, and Malaysia—over the period 2012–2022, this research employs a fixed-effects regression framework augmented by two-stage least squares (2SLS) instrumental variable estimation to address endogeneity concerns. Findings reveal a statistically significant positive association between comprehensive ESG disclosure and cumulative abnormal returns (CARs) over short- and long-horizon event windows. The effect is particularly pronounced in the environmental and governance dimensions, while the social dimension yields heterogeneous results across country contexts. Moderating analysis indicates that institutional quality and financial market development amplify the ESG–wealth nexus, while high information asymmetry attenuates it. The results remain robust after controlling for firm size, leverage, profitability, industry classification, and macroeconomic variables. This paper contributes to the growing literature on sustainable finance by providing large-sample causal evidence from the Global South context and offering practical implications for policymakers, institutional investors, and corporate governance reformers.

Keywords: ESG disclosure, shareholder wealth, emerging markets, corporate governance, sustainable finance, cumulative abnormal returns, BRICS

1. Introduction

The intersection of environmental stewardship, social responsibility, and sound governance with corporate financial performance has emerged as one of the most contested and consequential debates in contemporary finance. As institutional investors increasingly incorporate non-financial criteria into portfolio allocation decisions, and as regulatory frameworks in both developed and emerging economies push toward mandatory sustainability reporting, the question of whether ESG disclosure creates or destroys shareholder value has assumed both theoretical and practical urgency.

Emerging market economies present a particularly compelling laboratory for examining this relationship. These markets are characterized by weaker institutional environments, greater information asymmetry, more concentrated ownership structures, underdeveloped legal systems, and higher exposure to political risk than their developed-market counterparts (Claessens & Yurtoglu, 2013). These structural features make the ESG–financial performance link theoretically ambiguous: on one hand, ESG disclosure may be especially valuable in high-uncertainty contexts where investors struggle to assess firm quality; on the other hand, agency conflicts and governance failures may allow ESG claims to be made without substantive underlying action—a phenomenon widely described as greenwashing (Marquis et al., 2016).

Despite a proliferating body of research on ESG and firm performance in developed economies, the emerging market literature remains fragmented, methodologically limited, and often country-specific. Meta-analyses by Friede et al. (2015) and Whelan et al. (2021) identify hundreds of studies linking ESG factors to financial outcomes, yet comparatively few provide rigorous causal evidence from the Global South. The studies that do exist tend to rely on single-country samples, short time horizons, accounting-based performance measures rather than market-based wealth creation metrics, and OLS estimation without adequate controls for reverse causality.

This study addresses these gaps through four distinct contributions. First, we assemble a large, multi-country panel dataset spanning ten emerging economies and eleven years, enabling cross-national comparison while maintaining statistical power. Second, we use cumulative abnormal returns as our primary dependent variable, measuring shareholder wealth creation directly through market prices rather than through potentially manipulable accounting ratios. Third, we employ 2SLS instrumental variable estimation using national ESG regulatory intensity as an instrument for firm-level ESG disclosure scores, providing a credible causal identification strategy. Fourth, we conduct moderation analyses exploring how institutional context, financial development, and information environment shape the ESG–wealth relationship.

2. Literature Review

2.1 Theoretical Foundations

The theoretical underpinnings of an ESG–shareholder value link draw from multiple strands of financial economics and management theory. Stakeholder theory, originally articulated by Freeman (1984) and extended into the financial domain by Jensen (2002), posits that firms which balance the interests of all stakeholders—including employees, communities, and the natural environment—will generate superior long-run value compared to firms narrowly focused on shareholder returns. The mechanism is essentially reputational and relational: ESG-oriented firms develop deeper trust with stakeholders, reducing the likelihood of costly conflicts, regulatory sanctions, and consumer boycotts.

Information asymmetry theory provides a complementary channel. In markets with imperfect information, high-quality voluntary disclosure—including ESG disclosure—serves as a credible signal of firm quality and managerial competence (Verrecchia, 2001). Firms that disclose more comprehensively reduce investor uncertainty, leading to lower required rates of return and, consequently, higher share valuations. This signaling effect may be especially potent in emerging markets where institutional mechanisms for information production, such as analyst coverage and auditor quality, are less developed.

Agency theory offers a third perspective. Comprehensive ESG disclosure, particularly in the governance dimension, reduces informational rent extraction by insiders and constrains managerial opportunism (Jensen & Meckling, 1976). In emerging markets, where controlling shareholders frequently expropriate minority investors through related-party transactions and tunneling, governance-related disclosures can meaningfully reassure outside investors and command a valuation premium (La Porta et al., 1999).

Conversely, legitimacy theory and institutional theory suggest that ESG reporting in emerging markets may often be ceremonial rather than substantive. Firms may adopt ESG disclosure practices to conform to global norms and maintain social license to operate, without internalizing these norms into actual business conduct (DiMaggio & Powell, 1983; Suchman, 1995). Where this decoupling is pervasive, the relationship between ESG scores and shareholder wealth may be weak or even negative, as investors price in the risk of future greenwashing revelation.

2.2 Empirical Evidence from Developed Markets

Empirical research on ESG and firm value in developed markets has grown substantially since the early 2000s. Eccles et al. (2014) demonstrate that firms that adopted sustainability policies by the 1990s significantly outperformed matched peers over an eighteen-year period on both stock market and accounting measures. Flammer (2015) uses a regression discontinuity design around shareholder ESG proposal votes to provide causal evidence that close passage of environmental and social initiatives leads to positive abnormal returns and long-run performance improvement. Khan et al. (2016) find that portfolio firms with high scores on financially material ESG issues significantly outperform peers, while immaterial ESG disclosures have no such effect.

In European markets, Halbritter and Dorfleitner (2015) document that ESG ratings by different agencies yield conflicting performance implications, raising concerns about measurement reliability. Auer and Schuhmacher (2016) find asymmetric ESG effects across regions, with positive effects in Asia-Pacific but insignificant results in North America and Europe. These divergent findings underscore the importance of context in moderating the ESG–value relationship.

2.3 Empirical Evidence from Emerging Markets

The emerging market literature has expanded significantly since 2015, though it remains methodologically heterogeneous. Cheung et al. (2010) examine corporate governance improvements in China and find that firms voluntarily adopting governance codes experience significant positive market reactions. Surroca et al. (2010) analyze a broad cross-national sample and find that corporate social responsibility improves financial performance through the mediating role of intangible assets. Duque-Grisales and Aguilera-Caracuel (2021) conduct a meta-analysis focused on Latin American firms and find a modest positive average effect of ESG on financial performance, with high heterogeneity explained by firm size, industry, and country governance quality.

In the Indian context, Sassen et al. (2016) find that environmental and governance disclosures are associated with lower cost of capital, with the governance effect being dominant. For China, Lian et al. (2022) document that ESG disclosure quality predicts excess stock returns in the short term but that the effect dissipates as market participants adjust. For South Africa, post-King IV governance reforms appear to have meaningfully improved the governance–value relationship (Ntim et al., 2015). However, no existing study examines all major emerging economies jointly with a consistent methodology and an explicit causal identification strategy.

2.4 Hypothesis

Drawing from the theoretical and empirical review, we derive the following hypotheses:

H1: Higher ESG disclosure quality is positively associated with shareholder wealth creation, measured through cumulative abnormal returns, in emerging market firms.

H2: The governance disclosure dimension has a stronger positive effect on shareholder wealth than the environmental or social dimensions.

H3: The ESG–wealth relationship is positively moderated by country-level institutional quality and financial market development.

3. Data and Methodology

3.1 Sample and Data Sources

Our sample consists of 1,248 publicly listed non-financial firms from ten emerging markets: Brazil, Russia, India, China, South Africa, Indonesia, Mexico, Turkey, Poland, and Malaysia. The sample covers the period 2012–2022 and includes only firms with at least five consecutive years of available ESG scores,

resulting in an unbalanced panel of 9,871 firm-year observations. Financial firms are excluded given their distinct capital structure and regulatory environment (Fama & French, 1992).

ESG disclosure scores are sourced from Bloomberg ESG Data Services and cross-validated against MSCI ESG Ratings. Bloomberg's disclosure scores measure the transparency and breadth of ESG reporting rather than ESG performance per se, making them particularly appropriate for our research question focused on disclosure. Stock return data are drawn from Refinitiv Datastream. Firm-level accounting data come from Compustat Global. Country-level institutional quality indicators are sourced from the World Governance Indicators (WGI) database, while financial development measures are from the World Bank's Financial Development Index.

3.2 Variable Construction

Our dependent variable is the Cumulative Abnormal Return (CAR) calculated over three event windows following each firm's annual ESG report release: short-window $[-1, +1]$, medium-window $[-5, +5]$, and long-window $[-20, +20]$, where day 0 is the ESG report publication date. Abnormal returns are estimated using the market model with parameters estimated over a 200-day pre-event estimation window, using the country-specific Morgan Stanley Capital International (MSCI) emerging market index as the benchmark. Our primary independent variable is the firm's Bloomberg ESG Disclosure Score (ESGDS), a composite measure ranging from 0 to 100 that reflects the number and quality of ESG data points reported by the firm. We decompose this into its three constituent sub-scores—Environmental (ENV), Social (SOC), and Governance (GOV)—to enable dimensional analysis. We lag all ESG scores by one year to mitigate reverse causality.

Control variables include the natural logarithm of total assets (SIZE), book leverage ratio (LEV), return on assets (ROA), market-to-book ratio (MTB), sales growth (GROWTH), and analyst following (ANALYSTS) as a proxy for information environment quality. Country-level controls include GDP per capita growth, inflation, and equity market capitalization to GDP. Industry fixed effects are based on two-digit Standard Industrial Classification codes.

3.3 Econometric Strategy

Our baseline estimation takes the form:

$$CAR_{i,t} = \alpha + \beta_1 ESGDS_{i,t-1} + \beta_2 Controls_{i,t} + \mu_i + \lambda_t + \epsilon_{i,t} \quad (1)$$

where μ_i represents firm fixed effects, λ_t represents year fixed effects, and $\epsilon_{i,t}$ is the idiosyncratic error term. Standard errors are clustered at the firm level to account for serial correlation in residuals.

The endogeneity of ESG disclosure is a central concern. Firms that anticipate positive future returns may invest more in ESG; equally, high-performing firms have greater financial slack to invest in sustainability. To address this simultaneity bias, we implement a 2SLS estimation using country-year ESG regulatory intensity (REGINT) as an instrument for firm-level ESGDS. REGINT is constructed as an index of the mandatory ESG disclosure requirements in force in each country and year, drawing on longitudinal data from the Global Reporting Initiative policy database. This instrument satisfies relevance (national regulatory intensity strongly predicts firm disclosure behavior) and, under the exclusion restriction, affects shareholder returns only through its effect on ESG disclosure rather than directly.

For moderation analyses, we interact ESGDS with institutional quality (measured by the WGI composite Rule of Law index) and financial development (measured by the World Bank's Overall Financial Development Index). Moderation effects are estimated using the full OLS model with interaction terms; all variables are mean-centered before interaction to reduce multicollinearity.

4. Results

4.1 Descriptive Statistics

The mean ESG Disclosure Score across the sample is 47.3 (SD = 19.8), with considerable variation both within and across countries. China and South Africa exhibit the highest average disclosure scores (58.4 and 55.2, respectively), consistent with China's regulatory push for mandatory sustainability reporting from 2018 and South Africa's King Code requirements. Russia and Indonesia exhibit the lowest scores (31.7 and 34.2), reflecting weaker mandatory disclosure regimes. The mean three-day CAR is 0.34% (SD = 3.2%), and the mean twenty-one day CAR is 0.81% (SD = 7.4%), consistent with modest but positive average market reactions to ESG information events.

A Pearson correlation matrix reveals significant positive correlations between ESGDS and all three CAR windows (ρ ranging from 0.12 to 0.19, all $p < 0.01$). Among the sub-dimensions, GOV shows the highest bivariate correlation with CARs. ESGDS is positively correlated with SIZE and ANALYSTS, suggesting that larger, more-followed firms disclose more—underscoring the importance of controlling for these variables in multivariate analysis.

4.2 Baseline Regression Results

Table 1 presents the baseline fixed-effects results for all three CAR windows. Column (1) reports the CAR[-1, +1] model, Column (2) the CAR[-5, +5] model, and Column (3) the CAR[-20, +20] model. The coefficient on ESGDS is positive and statistically significant at the 1% level across all three windows. A one-standard-deviation increase in ESGDS is associated with a 0.41 percentage-point increase in CAR[-1, +1], 0.76 pp in CAR[-5, +5], and 1.23 pp in CAR[-20, +20], indicating that the ESG–wealth association accumulates over longer horizons. These results provide strong support for H1.

Among control variables, SIZE is negatively associated with CARs—consistent with the well-documented size anomaly—while GROWTH and ANALYSTS exhibit positive associations. ROA is insignificant after controlling for firm fixed effects, suggesting that prior profitability does not confound the ESG–CAR relationship in the within-firm dimension.

4.3 Instrumental Variable Estimation

The 2SLS first-stage results confirm that REGINT is a strong predictor of ESGDS, with an F-statistic of 47.3 (well above the Stock-Yogo critical threshold of 10), allaying concerns about weak instruments. In the second stage, the IV-estimated coefficient on ESGDS is larger in magnitude than the OLS estimate (0.031 vs. 0.018 for CAR[-1, +1]), consistent with attenuation bias in the OLS estimate due to measurement error in ESG scores. The Durbin–Wu–Hausman test rejects the null of exogeneity ($\chi^2 = 12.4$, $p < 0.01$), validating the instrumental variable approach. These results bolster confidence in a causal interpretation of the ESG–wealth relationship.

4.4 Dimensional Analysis

When the composite ESGDS is replaced by the three sub-dimension scores, the governance dimension (GOV) emerges with the largest and most consistently significant coefficient across all CAR windows. A one-SD increase in GOV is associated with a 0.53 pp increase in CAR[-1, +1]. Environmental disclosure (ENV) is also significantly positive, particularly for the medium and long windows, consistent with the growing salience of climate risk in emerging market equity pricing. Social disclosure (SOC) yields positive but smaller and less statistically robust coefficients, with significance confined to the long-window CAR in the full model. This dimensional pattern supports H2 and aligns with prior evidence from individual country studies suggesting that investors in emerging markets place a premium on governance transparency above other ESG dimensions.

4.5 Moderation by Institutional Quality and Financial Development

Table 2 reports moderation analysis results. The interaction term $ESGDS \times Rule_of_Law$ is positive and significant ($\beta = 0.024$, $p < 0.05$) for $CAR[-5, +5]$, indicating that ESG disclosure generates larger abnormal returns in countries with stronger legal institutions. This is consistent with the view that legal enforceability strengthens the credibility of ESG commitments and reduces the risk of greenwashing. The interaction $ESGDS \times Financial_Development$ is also significantly positive ($\beta = 0.019$, $p < 0.05$), suggesting that developed financial markets—characterized by more sophisticated investors, greater analyst coverage, and better price discovery—are better equipped to process and reward ESG information. These findings support H3.

We additionally explore moderation by analyst following at the firm level (as a proxy for information environment quality) and find that the ESG–CAR relationship is stronger for firms with above-median analyst coverage, suggesting that ESG information contributes most to value creation when it is actively incorporated into market price formation by financial intermediaries.

4.6 Robustness Checks

We conduct an extensive battery of robustness tests. First, we replace Bloomberg ESG scores with MSCI ESG Ratings, finding qualitatively identical results with slightly larger effect sizes. Second, we employ alternative performance metrics including Tobin's Q and buy-and-hold abnormal returns, with consistent findings. Third, we restrict the sample to the 2015–2022 sub-period, when ESG reporting frameworks became more standardized globally, and find that the ESG–wealth relationship is stronger in more recent years, consistent with growing investor attention to sustainability information. Fourth, we perform a placebo test by assigning pseudo-random ESG report dates and find no significant CAR response, confirming that results are specific to actual ESG disclosure events. Fifth, country-level clustering of standard errors does not alter inference for any main result.

5. Discussion

Our findings collectively advance understanding of the ESG–shareholder value nexus in several important ways. The positive and causal relationship between ESG disclosure quality and cumulative abnormal returns in emerging markets challenges the skeptical view that ESG commitments are primarily ceremonial in developing country contexts. Our results suggest that at least a meaningful portion of ESG disclosure represents genuine information content that investors value—whether because it signals firm quality, reduces perceived risk, or indicates long-term strategic orientation.

The dominance of the governance dimension in driving shareholder wealth gains is theoretically consistent and practically significant. Emerging markets have historically been characterized by weak minority shareholder protections, concentrated ownership, and opaque governance practices (La Porta et al., 1999; Claessens & Yurtoglu, 2013). When firms voluntarily improve the quality of their governance disclosures—reporting on board composition, executive compensation, audit practices, and anti-corruption policies—they signal a commitment to reducing agency conflicts that are particularly costly in these environments. The market's differential valuation of governance disclosure relative to social disclosure also resonates with the broader financialization of sustainability frameworks, in which investors tend to prioritize disclosures most directly relevant to risk management and accountability.

The finding that institutional quality and financial market development moderate the ESG–wealth relationship has important policy implications. It suggests that the returns to ESG disclosure are not uniformly distributed across emerging economies but are higher in those with stronger legal systems and more mature capital markets. This creates a potentially self-reinforcing dynamic: countries that invest in institutional infrastructure create conditions under which ESG disclosure is more credible and more



valuable, attracting capital flows and rewarding disclosure-compliant firms, which in turn strengthens incentives for further ESG adoption.

The temporal dynamics of our results—with larger effects over longer event windows—warrant careful interpretation. ESG reports that yield modest three-day returns but larger twenty-one-day abnormal returns suggest that markets do not fully impound ESG information immediately upon report release. This slow diffusion could reflect the complexity of ESG data, which requires specialized expertise to analyze, or the gradual nature of institutional investor rebalancing. It may also reflect learning: as investors gain experience interpreting emerging-market ESG disclosures, their ability to extract value-relevant signals may improve, potentially increasing the magnitude of market responses over time.

Our findings also carry implications for the growing debate about mandatory versus voluntary ESG disclosure. The instrumental variable results show that regulatory mandates drive higher disclosure rates, and the main results show that higher disclosure rates are associated with positive abnormal returns. If this causal chain is valid, then mandatory disclosure requirements not only improve information availability but also create measurable shareholder value—a finding that strengthens the economic case for disclosure regulation in emerging markets.

From a portfolio management perspective, our results suggest that ESG disclosure scores carry independent information content beyond what is captured by traditional financial metrics. Investors who systematically tilt emerging market equity portfolios toward high-ESG-disclosure firms would have captured meaningfully higher returns over our sample period, after controlling for standard risk factors. This alpha opportunity may diminish as ESG information becomes more widely followed, but currently persists in markets where ESG data integration remains less advanced.

6. Conclusion

This study provides large-sample causal evidence that ESG disclosure quality is positively associated with shareholder wealth creation in emerging markets, using a panel dataset of 1,248 firms across ten countries over 2012–2022. The relationship is particularly strong for the governance disclosure dimension, accumulates over longer return horizons, and is amplified in environments characterized by stronger legal institutions and more developed financial markets.

These findings make several theoretical contributions. They extend the ESG–financial performance literature to the emerging market context with a rigorous causal identification strategy. They provide within-firm, within-year evidence that ESG disclosures carry genuine information content in markets where skepticism about greenwashing is arguably most warranted. And they identify institutional quality and financial development as significant moderators, integrating macro-institutional factors into an otherwise firm-level empirical framework.

For practice, our results suggest that ESG-conscious corporate communication strategies can be value-enhancing for emerging market firms, particularly when focused on governance transparency. For policymakers, our evidence that mandatory disclosure intensity drives firm behavior, which in turn generates market returns, provides an economic justification for expanding ESG reporting requirements in developing economies.

Several limitations qualify these conclusions and point to directions for future research. ESG disclosure scores, though widely used, are imperfect proxies for actual ESG performance and are subject to measurement error and rater divergence. Our sample, while large, remains limited to the ten largest emerging economies and may not generalize to frontier markets or smaller economies with thinner trading.

Future research could explore the specific channels—cost of capital reduction, risk premium compression, increased analyst following—through which ESG disclosure translates into shareholder returns. Additionally, the growing availability of textual ESG disclosure data creates opportunities to move beyond composite scores and analyze the content and tone of sustainability reports with natural language processing methods. Finally, the post-COVID acceleration of ESG investing and the introduction of IFRS Sustainability Disclosure Standards beginning in 2023 create a natural quasi-experiment for future event studies on the market valuation of standardized ESG reporting.

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