The impact of ESG practices on corporate valuation: Evidence from annual reports

Abstract

Although Environmental, Social, and Governance (ESG) practices are increasingly recognised as essential to corporate strategy, the nature and strength of their impact on firm valuation remain unclear. While some studies report a positive link between ESG engagement and firm value, others find weak, insignificant, or even negative relationships depending on industry, region, or specific ESG dimensions. This inconsistency highlights a critical research gap and the need for deeper investigation into how ESG practices affect corporate value. Moreover, previous research often relies on third-party ESG ratings, however, there is limited convergence among leading providers, such as ASSET4, Bloomberg and KLD, with significant differences in scoring approaches, definitions, and transparency levels. To address these gaps, this study develops a novel, data-driven ESG Practices Index by systematically extracting ESG information from firms' annual reports using text mining techniques, offering an objective measure of ESG practices. Panel data analysis is employed on publicly traded firms from both developed and emerging markets to examine the impact of ESG engagement on corporate valuation. Robustness checks will be conducted employing third-party ESG ratings. The findings will offer new insights into the theoretical link between ESG practices and firm valuation, as well as their varying impacts across markets. This research contributes to the literature on ESG disclosure and firm value and provides a new tool for scholars to explore ESG practices more deeply. The findings are expected to support better decision-making by investors, policymakers, and corporate managers committed to sustainable business practices.

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