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Does ESG Disclosure Create Value? A Critical Review of the Evidence, with Attention to Emerging and Transition Economies

Haseeb Anwar
MSc International Business, Ulster University, Birmingham Campus, United Kingdom

Shahan Shah
MSc International Business with Data Analytics, Ulster University, London campus.

Md Mahbub ur Rahman
MSc International Business with Data Analytics, Ulster University, London campus.

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ABSTRACT: Whether environmental, social, and governance (ESG) disclosure creates shareholder value is one of the most studied and least settled questions in modern corporate finance. This paper critically reviews the theoretical arguments and empirical evidence on the ESG disclosure–firm value relationship, with particular attention to emerging and transition economies, where institutional conditions differ fundamentally from the developed markets that dominate the literature. The review organises the theoretical terrain around four mechanisms — information asymmetry reduction, stakeholder and legitimacy effects, signalling, and agency costs of overinvestment — which generate opposing predictions and therefore make the question empirical. Synthesising the empirical literature, including large-scale meta-analytic evidence, the review concludes that the association between ESG disclosure and firm value is on balance modestly positive but highly conditional: it strengthens with disclosure credibility (assurance, standardised frameworks), investor sophistication, and institutional quality, and weakens or disappears where disclosure is boilerplate or unverifiable. In emerging and transition economies, the evidence indicates that foreign institutional ownership is the primary channel through which disclosure is priced, raising distributional concerns about a two-tier disclosure landscape. The review closes with implications for phased ESG regulation and an agenda for research on disclosure quality rather than disclosure quantity.

KEYWORDS: ESG disclosure, firm valuation, sustainability reporting, transition economies, corporate governance, literature review, signalling

1. INTRODUCTION

Corporate ESG disclosure has moved in two decades from voluntary marginal practice to a central battleground of corporate governance. The European Union's Corporate Sustainability Reporting Directive, the ISSB's global baseline standards, and investor initiatives representing tens of trillions of dollars in assets have made the production of ESG information a routine corporate function. Underlying this institutional momentum is a contested empirical premise: that ESG transparency is rewarded by capital markets — that disclosure creates, or at least protects, shareholder value. Whether this premise is true, for whom, and under what conditions, remains actively disputed (Friede et al., 2015; Christensen et al., 2021). The dispute matters most where the evidence is thinnest. The overwhelming majority of ESG-value studies examine US and Western European firms operating under strong legal investor protection, deep analyst coverage, and mature assurance markets. Emerging and transition economies — where regulators are now actively designing first-generation ESG disclosure regimes — differ on every one of these dimensions, and importing conclusions from developed-market evidence into these settings is not obviously valid. This review therefore synthesises the general literature while giving deliberate attention to what is, and is not, known about ESG disclosure and firm value outside developed markets.

The paper proceeds as follows. Section 2 sets out the competing theoretical mechanisms. Section 3 reviews the empirical evidence from developed markets, including the meta-analytic record and its methodological disputes. Section 4 examines the emerging and transition economy evidence. Section 5 discusses regulatory implications, and Section 6 identifies the research agenda.

2. THEORETICAL MECHANISMS

2.1 Information Asymmetry and Cost of Capital

The most direct value channel runs through information. Voluntary disclosure theory holds that credible disclosure reduces the information asymmetry between managers and investors, lowering estimation risk and hence the required return on capital (Akerlof, 1970; Diamond & Verrecchia, 1991). Applied to ESG, the argument is that environmental and social exposures are material risks that investors price with an uncertainty premium when undisclosed; transparency reduces the premium. The mechanism predicts value effects proportional to the materiality and credibility of what is disclosed — a prediction with strong empirical support in the finding that materiality-weighted ESG measures predict returns where undifferentiated measures do not (Khan et al., 2016).

2.2 Stakeholder and Legitimacy Effects

Stakeholder theory (Freeman, 1984) and legitimacy theory (Suchman, 1995) locate value creation in the firm's relationships rather than its disclosures per se: firms that manage stakeholder relationships well enjoy operational advantages — employee commitment, customer loyalty, regulatory goodwill — and disclosure is the mechanism by which these otherwise invisible assets are communicated to markets. Evidence that social capital protected firm value during the 2008–2009 crisis, when trust was scarce (Lins et al., 2017), is the most cited support for this channel.

2.3 Signalling

Signalling theory (Spence, 1973) adds a separating-equilibrium logic: because credible ESG disclosure is costly — requiring data systems, assurance, and exposure to accountability — high-quality firms can use it to distinguish themselves from low-quality imitators. The mechanism implies that the value effect of disclosure depends on its cost and verifiability: cheap, boilerplate disclosure supports pooling rather than separation and should carry no price. This prediction organises much of the disclosure-quality literature.

2.4 Agency Costs and the Overinvestment Critique

Against these value-positive mechanisms stands the agency critique: ESG activity and its promotion may reflect managerial private benefits — reputation, entrenchment, quiet-life preferences — funded at shareholder expense (Masulis & Reza, 2015). Under this view, high ESG expenditure and expansive disclosure can signal governance failure rather than quality, predicting negative or null value effects, particularly where governance is weak. The coexistence of these opposing mechanisms is what makes the ESG-value question irreducibly empirical.

3. DEVELOPED-MARKET EVIDENCE

The empirical literature is enormous; its most cited synthesis, aggregating evidence from more than 2,000 primary studies, reports that roughly 90% find a non-negative relationship between ESG criteria and corporate financial performance, with a majority positive (Friede et al., 2015). Taken at face value this suggests a settled question, but three methodological disputes complicate the reading. First, causality: profitable firms can afford ESG investment and disclosure, and studies with stronger identification — natural experiments around disclosure mandates, regression discontinuity around rating thresholds — generally find smaller effects than the correlational literature (Christensen et al., 2021). Second, measurement: ESG ratings from different providers correlate weakly with one another, so results are sensitive to rating choice, and disclosure quantity is a poor proxy for performance quality. Third, publication and specification selectivity, which meta-research suggests inflates the average reported effect.

The most defensible summary of the developed-market record is conditional: disclosure that is material, credible, and assured is associated with modestly lower cost of capital and higher valuation multiples; undifferentiated or boilerplate disclosure is not priced; and event-study evidence around mandatory disclosure regulation shows heterogeneous effects concentrated in firms with the largest pre-existing information gaps. In short, the market appears to reward the resolution of genuine uncertainty, not the volume of sustainability text.

4. EVIDENCE FROM EMERGING AND TRANSITION ECONOMIES

The emerging-market literature is younger, smaller, and structurally different. Three findings recur. First, the average disclosure-value association is positive and, in several studies, larger than in developed markets — consistent with disclosure resolving more uncertainty where the baseline information environment is weaker. Second, the effect is strongly conditioned by ownership: firms with substantial foreign institutional ownership drive most of the measured association, while the disclosure of purely domestically held firms is frequently unpriced (Dyck et al., 2019; Aggarwal et al., 2011). Foreign institutions appear to function simultaneously as the demanders of disclosure, the monitors of its credibility, and the marginal pricers of its content. Third, assurance and framework adoption (GRI, and latterly ISSB alignment) matter more, not less, in these settings, because the absence of strong public enforcement makes private verification the principal credibility mechanism.

For transition economies specifically — post-centrally-planned markets with concentrated ownership and developing securities regulation — the evidence, though sparse, points to the same ownership-conditioned pattern, and raises a distributional concern: if disclosure is priced only through the foreign-institutional channel, market incentives will drive ESG adoption among the internationally connected segment of listed firms while leaving domestically held firms and state-owned enterprises untouched, producing a two-tier transparency landscape that voluntary regimes cannot correct.

5. REGULATORY IMPLICATIONS

The reviewed evidence carries a reasonably clear message for regulators in emerging and transition markets designing first-generation ESG regimes. Because credibility, not volume, is what markets price, regulatory effort is better spent on standardisation and assurance infrastructure than on maximising the breadth of mandated topics: a narrow, materiality-focused, verifiable baseline outperforms an expansive but uncheckable one. Because market incentives operate mainly through foreign institutional ownership, voluntary regimes will systematically under-supply disclosure among domestically held firms, supporting a phased approach: enabling standards and assurance first, followed by mandatory disclosure for large listed firms, with proportionate extension thereafter. And because disclosure mandates impose real compliance costs, phase-in periods calibrated to firm capacity — rather than uniform deadlines — reduce the risk that mandates produce boilerplate compliance rather than informative reporting.

Corresponding Author: Haseeb Anwar

6. CONCLUSION AND RESEARCH AGENDA

Three decades of research have not produced a simple answer to whether ESG disclosure creates value, because the question has no unconditional answer: the effect depends on what is disclosed, how credibly, to whom, and within what institutional environment. The frontier of the field is accordingly shifting from whether to when — from average effects to the moderating architecture of materiality, assurance, ownership, and institutions. For emerging and transition economies, the priority research needs are firm-level studies exploiting the staggered adoption of disclosure regulation now underway across these markets; direct measurement of disclosure quality rather than quantity; and analysis of the domestically held firm segment that the foreign-ownership channel bypasses. These are questions that emerging-market scholars are better positioned to answer than the developed-market literature that has so far defined the field.

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Corresponding Author: Haseeb Anwar