ESG SCORES' DIVERSITY AS A GREENWASHING PERCEPTION

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ABSTRACT

'Sustainability: doing good or sounding good?'. The growing interest of stakeholders in non-financial activities and performance of a company (Cornell & Shapiro, 1987; Cornell & Shapiro, 2020), require to find additional non-quantitative information to determine the drivers and proxies of the company value. As a result, the triple dimension of sustainability, environment, social, and governance (ESG), are increasingly involved in corporate strategies and intellectual debate in the last years (Fatemi et al., 2015). In this context became necessary to consider the measurement of value in a broader sense, a concept not widely shared in the past because the output is often intangible and the variables that generate this type of value are complex to identify and measure (Porter & Kramer, 2011). The innovative attention to sustainability policies, coupled with an ever-widening acceptance of sustainable investments, has shown the need to measure such non-financial performance through meaningful and shareable systems.

According to literature, sustainability represented by the non-financial performance, if pursued and assessed exactly and meticulously, implies changes in financial performance and consequently in corporate value and its estimation, because it introduces new variables that must be considered in the economic evaluation of the organization and its business (Eccles et al., 2014; Yu et al., 2018; Dalal & Thaker, 2019; Cornell & Damodaran, 2020). Pursuing goals and implementing sustainable activities can generate value, a value convenient for the management of business activities in the long term. However, we still know little of whether ESG performance and ESG disclosure impact on firm value, through proxies and drivers of the value, and how. This work tries to fill this gap, and its aim is to bring out the impact of ESG performance score and ESG disclosure score on firm value and whether the relationship between the two score, i.e. if the difference in the two sustainability scores stems from any greenwashing practices.

More specifically, we assume that the impact of sustainable practice on firm value is generally positive and that there are different effects on firm value from ESG disclosure score and ESG performance score. To test the hypotheses, we collected data from 572 listed companies in Europe operating in different utilities, manufacturing, and services sectors for a time frame of 10 financial years (2011-2020), and we performed two stages least squares regression analysis with instrumental variables (IV-2SLS). The methodology was used to reduce the endogeneity caused by the heterogeneity of the sample used (panel data) and to limit the endogeneity due to the simultaneity between firm value and

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ESG factors, by fixing the direction of investigation (instrumental variables), El Ghoul et al. (2011). Further, in order to validate the results obtained from the main econometric model (IV-2SLS), the robustness of the model is checked by applying Pooled Ordinary Least Squares (POLS) regression analysis.

Overall, the study aims to put forward the main following theoretical implications, contributing: to the literature on sustainability joint in ESG factors, providing empirical evidence on the positive relationship between ESG score and firm value; Second by shedding light on the difference in ESG scores, bringing out a magnitude difference between disclosure score and performance score due to information asymmetry and possible greenwashing practices.

The preliminary results obtained showed that the simultaneous study of the two ways of considering ESG practices, allows us to observe that ESG disclosure scores have a greater impact on firm value than ESG performance scores, boasting a higher magnitude. This supports the hypothesis since the effects of both ESG scores on firm value are almost identical, therefore with different magnitudes. In this regard, if the level of disclosure overshadows actual performance so significantly, the results raise the question of whether sustainability standards present performance fairly to satisfy the needs of both shareholders and stakeholders in terms of reliable, unbiased and useful information.

These results allow us to put forward the following theoretical implications. First, the study contributes to the literature on ESG practices, greenwashing, and stakeholder theory (Freeman, 1984; Gutsche et al., 2017; Zhang, 2022), shedding light on the concept of greenwashing in the field of ESG and providing empirical evidence on the thesis that managers can attempt an opportunistic use of sustainability disclosure (in terms of ESG) to report good news while curbing bad news, and those market participants find it difficult to process sustainability information. The literature has neglected issue regarding the combinate effect of ESG performance on firm value and ESG disclosure on firm value. As a result, the study advances our knowledge on the side of ESG metrics and their effects on firm value, suggesting the positive impact of both metrics but with different relevance.

From a practical point of view, the growing interest in a company's non-financial activities and performance, suggests a growing need to find additional non-quantitative information to determine the drivers and proxies at the basis of company evaluation.

Keywords: ESG performance, ESG disclosure, firm value, greenwashing, stakeholder theory

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