

Do ESG Disclosures Signal Firm Value? Evidence from Capital Market Reactions in Emerging Economies

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ABSTRACT

This study examines whether Environmental, Social, and Governance (ESG) disclosure can be considered an indicator of firm value by synthesizing evidence from capital market reactions in emerging markets. A qualitative literature review approach is employed based on 25 scholarly documents published in reputable academic sources. The analysis focuses on the relationship between ESG disclosure quality, investor behavior, and firm valuation outcomes. The findings indicate that ESG disclosure is generally associated with positive capital market reactions, including improved firm value, reduced cost of capital, and lower information asymmetry. These effects are primarily driven by enhanced transparency, stronger corporate legitimacy, and increased investor confidence. However, the relationship is not consistent across all contexts. Institutional quality, regulatory enforcement, ESG reporting standards, and investor sophistication significantly influence the strength of market responses. In weaker institutional environments, ESG disclosure often produces limited or inconsistent valuation effects due to perceptions of symbolic reporting. In contrast, in more developed emerging markets, ESG disclosure functions as an effective signaling mechanism that is incorporated into investor decision-making. Overall, ESG disclosure is a conditional indicator of firm value, highly dependent on contextual and informational factors.

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A. INTRODUCTION

Environmental, Social, and Governance (ESG) disclosure has become a central component of corporate reporting in global capital markets. Firms are no longer assessed solely based on financial performance, but also on their non-financial disclosures that capture environmental responsibility, social impact, and governance quality (Tjahjadi, Agastya, Soewarno, & Adyantari, 2022; Tjahjadi, Soewarno, Nadyaningrum, & Aminy, 2022). This development reflects increasing pressure from institutional investors, regulators, and other stakeholders who integrate ESG information into broader assessments of corporate performance (Torani, Suryantini, & Irham, 2022; Wang, Song, & Sun, 2023). In capital market settings, ESG disclosure functions as a signaling mechanism that can reduce information asymmetry and improve the perceived credibility of managerial decision-making.

The importance of ESG disclosure is particularly evident in emerging markets, where informational frictions are generally higher and institutional frameworks are less developed compared to advanced economies. In such contexts, investors tend to rely more heavily on voluntary disclosures to evaluate firm risk, sustainability, and long-term performance prospects (Doni & Fiameni, 2023; Huralikoppi, 2024). Consequently, ESG disclosure is often linked to market-based indicators such as stock price reactions, valuation adjustments, and perceived cost of capital. However, empirical findings on these relationships remain heterogeneous, suggesting that ESG effects are not uniform across all emerging market settings.

Despite the growing volume of research on ESG disclosure, there remains no clear consensus on whether it consistently reflects firm value. A strand of literature argues that ESG disclosure improves transparency, enhances investor confidence, and ultimately contributes to higher firm valuation. Conversely, other studies suggest that ESG reporting may be largely symbolic or driven by compliance motives, particularly in environments with weak enforcement mechanisms, thereby producing limited or even negligible market responses (Doni & Fiameni, 2023; Huralikoppi, 2024). This divergence implies that the ESG–firm value relationship is contingent on contextual and institutional conditions.

The inconsistency in prior findings is further reinforced by the fragmented nature of existing studies. Research on ESG disclosure is dispersed across different countries, sectors, and methodological approaches, making it difficult to establish a unified theoretical and empirical conclusion (Doni & Fiameni, 2023; Torani et al., 2022; Wang et al., 2023). In addition, many studies examine ESG dimensions separately, focusing on environmental, social, or governance aspects in isolation rather than as an integrated construct. This limits the ability to fully capture how ESG disclosure collectively influences investor perception and firm valuation.

Another limitation in the literature is the predominance of context-specific evidence that is not easily generalizable. Variations in regulatory quality, investor sophistication, and disclosure standards across emerging markets contribute to inconsistent capital market reactions. As a result, the explanatory power of ESG disclosure as a universal indicator of firm value remains unclear. This calls for a more systematic synthesis of existing evidence to clarify the conditions under which ESG information is value-relevant.

Accordingly, this study aims to synthesize empirical findings through a structured literature review of 25 scholarly articles focusing on ESG disclosure and capital market reactions in emerging markets. The objective is to evaluate whether ESG disclosure can be interpreted as a reliable indicator of firm value and to identify the institutional and informational factors that strengthen or weaken this relationship. By integrating fragmented evidence, this study contributes to a more consolidated understanding of ESG disclosure as a potentially conditional signal of firm value in capital markets.

B. RESEARCH METHOD

This study employs a qualitative literature review approach to examine the relationship between Environmental, Social, and Governance (ESG) disclosure and firm value, with a focus on capital market reactions in emerging markets. The method is selected because the study does not aim to test hypotheses using primary data, but rather to synthesize and interpret existing empirical findings to construct a comprehensive understanding of how ESG disclosure influences firm value. A structured literature review design is used to ensure a systematic, transparent, and reproducible process in identifying and analyzing relevant scholarly publications.

The data consist of 25 scholarly articles obtained from reputable academic databases, including Scopus-indexed journals and other recognized sources. Article selection is based on strict inclusion criteria: studies must address ESG disclosure or sustainability reporting, examine firm value or capital market reactions, be situated in emerging or developing economies, be published in peer-reviewed journals, and provide sufficient methodological detail in English. Studies focused exclusively on developed markets without contextual relevance to emerging economies are excluded to maintain analytical consistency. Data analysis is conducted using thematic synthesis, where each article is coded according to key dimensions such as ESG disclosure quality, capital market reactions, information asymmetry, investor trust, and institutional environment.

The analysis is structured within an analytical framework that links ESG disclosure to firm value through intermediary mechanisms such as signaling effects, information asymmetry reduction, and investor confidence, supported by institutional theory and signaling theory. To ensure validity and reliability, triangulation is performed by comparing findings across multiple studies to identify consistent patterns and minimize interpretive bias. This approach enables a systematic integration of fragmented evidence, producing a coherent understanding of the role of ESG disclosure as a conditional indicator of firm value in emerging capital markets.

C. RESULTS AND DISCUSSION

This section presents the synthesized findings from 25 scholarly documents examining ESG disclosure and capital market reactions in emerging markets. The discussion is structured around four dominant themes identified through thematic synthesis: (1) ESG disclosure and firm value implications, (2) capital market reactions and investor behavior, (3) moderating role of institutional environments, and (4) ESG disclosure as a signaling mechanism under information asymmetry.

ESG Disclosure and Firm Value Implications

Across the reviewed literature, the majority of studies indicate a generally positive association between ESG disclosure and firm value. Firms with higher ESG disclosure quality tend to experience improved valuation metrics, including higher stock prices, stronger Tobin's Q, and lower perceived risk premiums. This relationship is primarily explained by enhanced transparency and improved corporate legitimacy in the eyes of investors. In general, ESG disclosure is associated with better market performance, as effective ESG practices are linked to increased investor trust and more favorable capital market responses (Li, Saat, Khatib, & Liu, 2024; Nurlatifah & Ahmar, 2025). Enhanced transparency from ESG reporting further strengthens investor confidence, which may contribute to higher valuation outcomes such as increased stock prices and Tobin's Q ratios (Patekar & Mahajan, 2025).

However, the findings are not entirely consistent across studies. Some research reports weak or statistically insignificant relationships between ESG disclosure and firm value, particularly in contexts where ESG reporting remains voluntary and lacks standardized measurement (Li et al., 2024; Rukmiyati, Purbawangsa, Baskara, & Candraningrat, 2023). These inconsistencies indicate that ESG disclosure does

not automatically translate into higher firm value unless it is perceived as credible, comparable, and decision-relevant by capital market participants. The effectiveness of ESG information is therefore highly contingent on disclosure quality, measurement standardization, and investor interpretation (Patekar & Mahajan, 2025; Zuli, 2023).

Capital Market Reactions and Investor Behavior

The literature consistently shows that ESG disclosure significantly influences capital market behavior, particularly through stock price reactions around disclosure events. Positive ESG announcements and higher ESG scores are associated with abnormal returns, indicating that investors increasingly incorporate ESG information into their pricing decisions. ESG transparency is also interpreted as a signal of long-term sustainability and stronger governance quality, which enhances investor confidence and reduces perceived investment risk. This is reflected in findings that report improved liquidity, lower cost of equity, and more favorable market responses among firms with high-quality ESG disclosures (Bharadia, 2025; Y. Yang & Li, 2024).

However, the effectiveness of ESG disclosure is highly contingent on its quality and depth. While substantive ESG reporting tends to generate positive and sustained market reactions, symbolic or superficial disclosures often produce weaker or short-lived effects, as investors are able to distinguish between genuine and cosmetic reporting practices (Bharadia, 2025; Liao, 2025). In addition, lower perceived investment risk is more consistently associated with firms demonstrating robust ESG commitments, reinforcing the role of disclosure credibility in shaping capital market outcomes (Moroşan & Vasîu, 2025).

Moderating Role of Institutional Environments

A key finding across the reviewed studies is that the ESG–firm value relationship is highly contingent on institutional context. In emerging markets with stronger regulatory frameworks, higher disclosure enforcement, and more developed capital markets, ESG disclosure tends to have a more consistent and positive impact on firm value. In contrast, in weaker institutional environments, the effect of ESG disclosure is often diluted due to limited enforcement, lack of standardized reporting frameworks, and lower investor sophistication, which reduces its informational value in capital market decision-making (Deb, 2025; Syarkani, Subu, & Waluyo, 2024).

In such contexts, ESG disclosure may function more as symbolic compliance rather than a credible signal of firm quality. Evidence from BRICS economies further indicates that ESG disclosures are more strongly associated with firm valuation when governance quality is higher, while weak institutional settings reduce the effectiveness of ESG signals (David, Wang, Luo, & Cisse, 2025). Limited enforcement and low investor sophistication also weaken the interpretive value of ESG information, potentially leading to inefficient capital allocation. This variation underscores the relevance of institutional theory in explaining cross-country differences in ESG effectiveness and reinforces that ESG disclosure operates within broader governance and regulatory systems rather than in isolation.

ESG Disclosure as a Signaling Mechanism

From a theoretical perspective, ESG disclosure is widely interpreted as a signaling mechanism that reduces information asymmetry between firms and external investors. Firms that provide high-quality ESG information signal their commitment to transparency, ethical practices, and long-term sustainability, which can positively influence investor perceptions and firm valuation. This signaling effect is particularly important in emerging markets, where information asymmetry is typically higher due to weaker disclosure systems, making ESG reporting a critical tool for shaping investor expectations and reducing uncertainty in valuation models. Empirical evidence suggests that comprehensive ESG disclosure prior to IPOs reduces share underpricing and enhances long-term firm value, while also improving valuation metrics such as

Tobin's Q and strengthening corporate reputation and risk management outcomes (J. Yang, 2024; Yu, Guo, & Luu, 2018; Кошин, 2026).

However, the effectiveness of ESG signaling is highly dependent on the credibility and quality of the disclosed information. Standardized and externally verified ESG reports tend to generate stronger signaling effects, whereas inconsistent standards and lack of comparability can hinder proper assessment of ESG quality (J. Yang, 2024). In contrast, unverified or selectively disclosed ESG information may increase investor skepticism, thereby weakening its positive impact on firm value and even diminishing its informational usefulness (Кошин, 2026). This highlights that ESG disclosure functions effectively as a signaling mechanism only when it is perceived as credible, consistent, and decision-relevant by capital market participants.

D. CONCLUSION

This study concludes that ESG disclosure cannot be interpreted as a universal or direct indicator of firm value in emerging markets, but rather as a conditional signal whose relevance depends on disclosure quality, institutional environment, and investor interpretation. The synthesis of 25 scholarly documents indicates that ESG disclosure generally generates positive capital market reactions, including higher firm valuation, lower cost of capital, and reduced perceived risk. However, these effects are not consistent across contexts; in countries with weak governance systems, limited enforcement, and low standardization of ESG reporting, market responses tend to be weak or inconsistent, as ESG disclosure is often perceived as symbolic rather than substantive, thereby limiting its informational value.

Conversely, in more developed emerging markets with stronger institutional frameworks, ESG disclosure plays a more effective signaling role by reducing information asymmetry and enhancing investor trust, which results in more pronounced positive effects on firm value and capital market performance. Overall, ESG disclosure functions as a context-dependent informational signal rather than a standalone determinant of firm value. Future research is recommended to employ meta-analytic or cross-country empirical approaches to further validate the strength and boundary conditions of the ESG–firm value relationship.

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