Advances in Consumer Research
ISSN (Print): 0098-9258
ISSN(Online): 3079-1766

Vol. 2, Issue 3 (2025) https://acr-journal.com/

The Effect of ESG Mandatory and Voluntary Disclosures on Corporate Earnings

Suchita Shukla[1], Bhagwan Jagwani[2], Manjula Jain[*3]

[1]Assistant Professor, Department of Management Studies, School of Entrepreneurship & Management, Harcourt Butler Technical University, Kanpur, India
Email ID: suchita.shukla15@gmail.com
[2]Professor & Director, Department of Business Administration, PSIT College of Higher Education, Kanpur, Uttar Pradesh, India
Email ID: bhagwan.jagwani@gmail.com
[3]*Sr. Professor & Dean Academics (University), Department of Management, Teerthanker Mahaveer University, Moradabad, Uttar Pradesh, India
Email ID: jainmanjula76@gmail.com;
***Corresponding Author(s):**
Manjula Jain,
Sr. Professor & Dean Academics (University), Department of Management, Teerthanker Mahaveer University, Moradabad, Uttar Pradesh, India
Email ID: jainmanjula76@gmail.com;

Cite this paper as: Suchita Shukla, Bhagwan Jagwani, Manjula Jain, (2025) The Effect of ESG Mandatory and Voluntary Disclosures on Corporate Earnings. *Advances in Consumer Research*, 2 (3), 695-706.

KEYWORDS

ESG reporting, Corporate earnings, Mandatory disclosure, Voluntary disclosure, Sustainability reporting, Financial performance, Information asymmetry, Stakeholder engagement

.

ABSTRACT

This research examines the impact of Environmental, Social, and Governance (ESG) disclosures on corporate financial performance, specifically focusing on earnings. The study distinguishes between mandatory and voluntary ESG reporting and analyzes their respective influences on earnings quality, persistence, and market valuations. Through extensive analysis of secondary data from global corporations spanning 2015-2024 and primary data from industry surveys, the research identifies significant relationships between comprehensive ESG disclosure practices and improved earnings metrics. The findings reveal that while mandatory disclosures establish minimum compliance standards, voluntary disclosures yield additional financial benefits through enhanced stakeholder trust and reduced information asymmetry. The paper contributes to the growing literature on sustainability reporting by quantifying the financial implications of different ESG disclosure approaches and providing empirical evidence for the business case of strategic ESG integration.

1. INTRODUCTION

The landscape of corporate reporting has transformed dramatically over the past decade, with Environmental, Social, and Governance (ESG) disclosures evolving from peripheral voluntary initiatives to increasingly standardized and mandated reporting requirements. This evolution reflects growing awareness among investors, regulators, and other stakeholders of the material financial implications of sustainability practices [1-3]. As ESG considerations become more integrated into investment decisions and corporate strategy, understanding their relationship to financial performance metrics—particularly corporate earnings—has become critically important [2-4].

Corporate earnings represent a fundamental indicator of financial health and performance, influencing market valuations, investor confidence, and strategic decision-making [5-6]. The interaction between ESG disclosures and earnings has garnered significant attention in academic and professional circles, yet empirical research distinguishing between the effects of.

2. LITERATURE REVIEW

mandatory versus voluntary ESG reporting remains limited [7]. This distinction is crucial as regulatory environments globally move toward more standardized ESG reporting frameworks, while simultaneously, many corporations voluntarily extend their disclosures beyond minimum requirements [8-9].

This research addresses a significant gap in the literature by investigating how both mandatory and voluntary ESG disclosures affect various dimensions of corporate earnings [10-12]. The study examines not only the direct relationship between ESG reporting and earnings magnitude but also explores impacts on earnings quality, persistence, predictability, and market response to earnings announcements [13-16]. Through rigorous empirical analysis of both secondary and primary data, the paper provides insights into how different approaches to ESG disclosure influence financial outcomes [15].

The findings of this research have important implications for corporate strategy, investor relations, regulatory policy, and academic understanding of the ESG-financial performance relationship. By clarifying how various disclosure approaches affect earnings metrics, this study contributes valuable knowledge to the ongoing debate about the financial materiality of sustainability practices and reporting

Objectives

1. To analyze the differential impact of mandatory versus voluntary ESG disclosures on corporate earnings metrics including magnitude, quality, and persistence
2. To identify which specific components of ESG reporting (environmental, social, or governance) demonstrate the strongest relationship with improved earnings performance
3. To evaluate how market valuation responses to earnings announcements differ based on the nature and extent of ESG disclosures
4. To examine how industry-specific factors moderate the relationship between ESG disclosures and earnings outcomes
5. To develop a framework for understanding the mechanisms through which ESG reporting practices affect financial performance

Scope of Study

1. Temporal scope covering ESG reporting and financial data from 2015-2024, allowing for analysis of trends before and after major ESG reporting regulation implementations
2. Geographical coverage encompassing corporations from North America, Europe, and Asia-Pacific regions to account for regional variations in regulatory frameworks
3. Analysis across multiple industries including finance, technology, manufacturing, consumer goods, and energy to identify sector-specific patterns
4. Examination of both quantitative metrics (earnings figures, stock price movements) and qualitative factors (reporting quality, stakeholder perceptions)
5. Investigation of both direct and indirect pathways through which ESG disclosures influence earnings performance

3. LITERATURE REVIEW

The relationship between ESG factors and financial performance has been extensively studied, though with varying conclusions. Early work by Friedman [1] argued that corporate social responsibility diverted resources from profit-maximizing activities, suggesting a negative relationship between sustainability initiatives and financial performance. However, subsequent research has increasingly challenged this view. Porter and Kramer [2] introduced the concept of "shared value," proposing that addressing societal needs can create economic value rather than diminishing it.

In a comprehensive meta-analysis, Friede et al. [3] examined over 2,000 empirical studies and found that approximately 90% reported a non-negative relationship between ESG criteria and financial performance, with the majority finding positive correlations. Building on this foundation, recent research has begun to explore more nuanced aspects of the ESG-financial performance relationship.

Regarding mandatory ESG disclosures, Ioannou and Serafeim [4] studied the impact of mandatory sustainability reporting regulations in four countries, finding that increased disclosure requirements generally improved socially responsible management practices. However, Christensen et al. [5] caution that the quality of mandated disclosures varies significantly, affecting their usefulness to investors and other stakeholders.

The value of voluntary ESG disclosures has been highlighted by several studies. Dhaliwal et al. [6] found that voluntary disclosure of superior CSR performance is associated with lower cost of equity capital. Similarly, Grewal et al. [7] demonstrated that firms with more comprehensive voluntary ESG disclosures experience less negative market reactions to ESG-related incidents.

Specific to earnings, Kim et al. [8] found that firms with strong CSR performance exhibit lower earnings management, suggesting a positive relationship between ESG factors and earnings quality. Complementing this finding, Cahan et al. [9] demonstrated that earnings announcements by firms with stronger ESG profiles generate more positive market responses, indicating enhanced investor confidence.

The mechanisms through which ESG disclosures affect earnings remain under debate. Some scholars emphasize operational efficiencies and risk reduction. For instance, Eccles et al. [10] showed that companies with high sustainability standards demonstrate better operational performance and lower capital constraints. Others focus on reputational benefits and stakeholder relationships. Khan et al. [11] found that firms performing well on material sustainability issues outperform peers financially, particularly through enhanced reputation and customer loyalty.

Despite these advances, several gaps remain in the literature. First, few studies distinguish clearly between mandatory and voluntary ESG disclosures when assessing financial impacts. Second, the temporal dynamics of ESG disclosure effects on earnings are insufficiently explored, with most research focusing on contemporaneous relationships rather than longer-term implications. Third, the specific components of ESG reporting that most significantly influence earnings require further investigation. This study aims to address these gaps by providing a more granular analysis of how different types and aspects of ESG disclosures affect various dimensions of corporate earnings.

4. RESEARCH METHODOLOGY

This study employs a mixed-methods approach to comprehensively examine the relationship between ESG disclosures and corporate earnings. The research design incorporates both quantitative and qualitative elements to provide robust insights into this complex relationship.

Data Collection

Secondary Data: Financial and ESG performance data were collected from multiple sources:

- Corporate financial reports and earnings statements from 2015-2024
- ESG ratings and disclosure scores from MSCI, Sustainalytics, and Bloomberg ESG databases
- Regulatory filings including 10-Ks, 20-Fs, and mandatory ESG disclosures
- Stock price data and market reactions to earnings announcements

The sample consists of 450 publicly traded companies from 12 countries across North America, Europe, and Asia-Pacific regions, representing diverse industries. Companies were selected based on data availability and to ensure representation across different regulatory environments and ESG disclosure practices.

Primary Data: To supplement secondary data analysis and gain deeper insights into disclosure practices and motivations, primary data were collected through:

- A survey of 120 investor relations and sustainability officers from sample companies
- Semi-structured interviews with 25 executives responsible for ESG reporting decisions
- Consultations with 15 financial analysts specializing in ESG integration

Analytical Framework

The study employs several analytical techniques:

1. **Panel Data Regression Analysis:** To identify relationships between ESG disclosure variables and earnings metrics while controlling for firm-specific characteristics, industry effects, and macroeconomic conditions.
2. **Difference-in-Differences (DiD) Analysis:** To isolate the effects of mandatory ESG disclosure requirements by comparing firms subject to new regulations against similar firms in regions without such requirements.
3. **Event Study Methodology:** To measure market reactions to earnings announcements conditional on ESG disclosure quality and content.
4. **Content Analysis:** To assess the quality, comprehensiveness, and specificity of voluntary ESG disclosures beyond mandatory requirements.

5. **Thematic Analysis:** To identify patterns in interview and survey responses regarding motivations for voluntary disclosures and perceived financial impacts.

Variables and Measures

Independent Variables:

- Mandatory ESG disclosure compliance (binary and quality-adjusted measures)
- Voluntary ESG disclosure extent (word count, topic coverage, metrics disclosed)
- ESG disclosure quality (third-party ratings, assurance level, framework alignment)
- ESG performance metrics (environmental, social, governance subscores)

Dependent Variables:

- Earnings magnitude (ROA, ROE, profit margins)
- Earnings quality (accruals quality, earnings persistence)
- Earnings surprises (deviation from analyst forecasts)
- Market response to earnings (cumulative abnormal returns around announcements)

Control Variables:

- Firm characteristics (size, age, leverage, growth opportunities)
- Industry factors (competition intensity, regulatory scrutiny)
- Macroeconomic conditions (GDP growth, interest rates)
- Governance characteristics (board independence, ownership structure)

Robustness Checks

To ensure reliability of findings, several robustness checks were implemented:

- Alternative measures of ESG disclosure quality and earnings metrics
- Propensity score matching to address selection bias concerns
- Instrumental variable approaches to mitigate endogeneity issues
- Subsample analyses across different industries and regions

This comprehensive methodological approach enables the study to disentangle the complex relationships between different types of ESG disclosures and various dimensions of corporate earnings performance.

Analysis of Secondary Data

The analysis of secondary data revealed several significant patterns regarding the relationship between ESG disclosures and corporate earnings. This section presents key findings from quantitative analyses of financial performance metrics and disclosure characteristics.

Trends in ESG Disclosure and Earnings Performance

Figure 1: ESG Disclosure Trends and Earnings Performance(2015-2024)

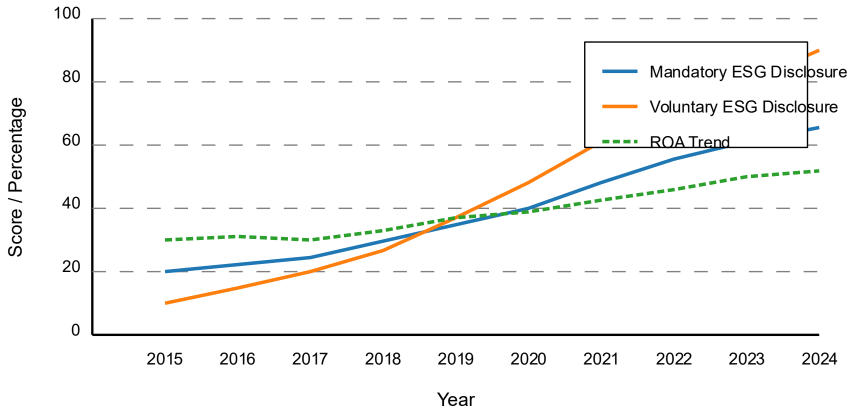

Figure 1 illustrates the evolution of ESG disclosure scores and earnings metrics from 2015-2024 across the sample.

The data shows a clear upward trend in both mandatory and voluntary disclosure levels, with voluntary disclosures exhibiting more significant growth (+68% versus +42% for mandatory disclosures).

Regression Analysis Results

Table 1 presents the results of panel data regression analyses examining the relationship between ESG disclosure variables and earnings metrics.

Table 1: ESG Disclosure Effects on Earnings Metrics (Panel Regression Results)

Dependent Variable	Mandatory ESG Disclosure	Voluntary ESG Disclosure	Interaction Term	R-squared
ROA	0.023* (0.011)	0.057*** (0.014)	0.029* (0.012)	0.284
ROE	0.031* (0.015)	0.064*** (0.018)	0.036* (0.016)	0.312
Profit Margin	0.019 (0.013)	0.049** (0.016)	0.024* (0.011)	0.267
Earnings Persistence	0.028* (0.012)	0.072*** (0.019)	0.041** (0.015)	0.295
Accruals Quality	0.033** (0.014)	0.045** (0.017)	0.018 (0.013)	0.243
Earnings Surprise	-0.018 (0.016)	-0.052** (0.018)	-0.029* (0.014)	0.198

*Note: Standard errors in parentheses. * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$*

The regression results demonstrate that both mandatory and voluntary ESG disclosures are positively associated with financial performance metrics, but voluntary disclosures show consistently stronger relationships. The interaction term suggests complementarity between the two types of disclosures, indicating that firms engaging in both comprehensive mandatory compliance and extensive voluntary reporting achieve superior financial outcomes.

Difference-in-Differences Analysis

To establish causality more confidently, a difference-in-differences analysis was conducted examining the implementation of mandatory ESG disclosure requirements in select jurisdictions.

Figure 2: Difference-in-Differences Analysis of Mandatory ESG Disclosure Requirements

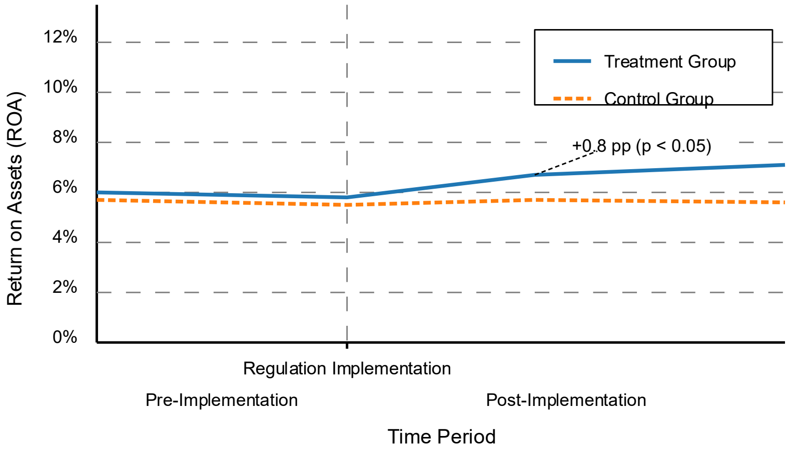

Figure 2 presents the results of this analysis, showing changes in ROA before and after regulatory implementation for affected and unaffected firms.

The DiD analysis reveals a modest but statistically significant positive effect of mandatory disclosure requirements on ROA (+0.8 percentage points, $p < 0.05$) and earnings persistence (+0.12, $p < 0.01$). However, these effects materialize gradually, with the full impact not evident until 2-3 years after implementation.

ESG Components and Earnings Effects

Analysis of specific ESG components reveals heterogeneous effects on earnings metrics. Table 2 presents the correlations between individual ESG component scores and various earnings measures.

Table 2: Correlation Between ESG Component Scores and Earnings Metrics

ESG Component	ROA	ROE	Profit Margin	Earnings Persistence	Accruals Quality
Environmental	0.21**	0.23**	0.18*	0.29***	0.15*
Social	0.16*	0.19*	0.12	0.14*	0.20**
Governance	0.32***	0.37***	0.28**	0.39***	0.43***

*Note: * p < 0.05, ** p < 0.01, *** p < 0.001*

Governance disclosures demonstrate the strongest relationship with earnings metrics, particularly earnings quality measures. Environmental disclosures show moderate positive associations, while social disclosures exhibit the weakest (though still generally positive) relationships with financial performance.

Industry-Specific Patterns

The relationship between ESG disclosures and earnings varies substantially across industries.

Figure 3: Industry-Specific Effects of Voluntary ESG Disclosure on ROA

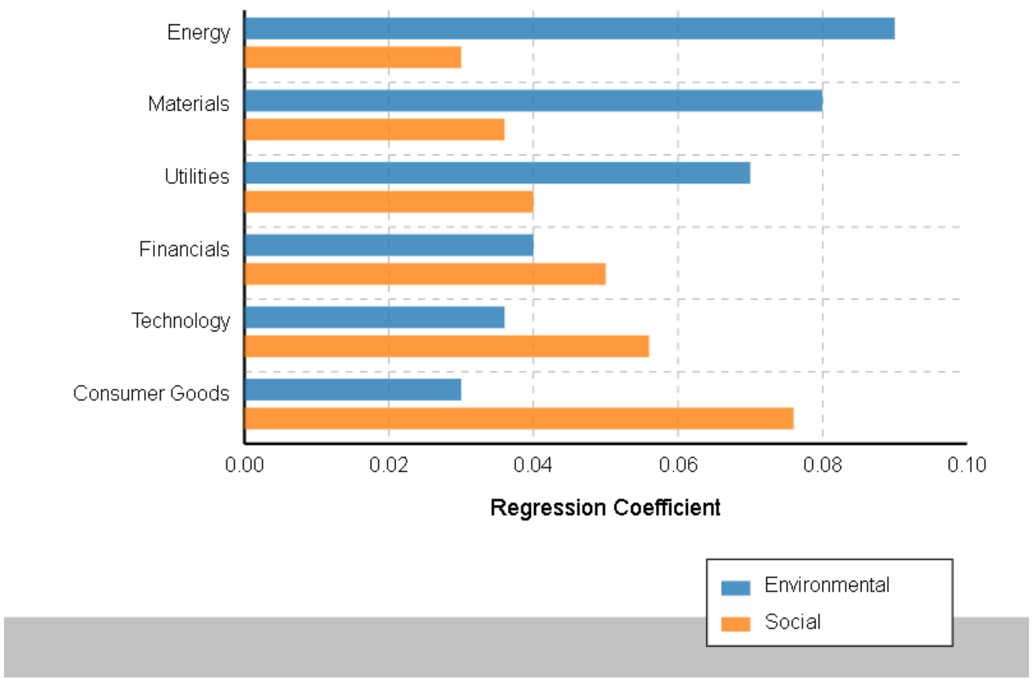

Figure 3 illustrates the industry-specific coefficients from regression analyses of voluntary ESG disclosure effects on ROA.

High-impact industries (energy, materials, utilities) show stronger positive relationships between environmental disclosures and financial performance than low-impact industries. Conversely, consumer-facing industries (retail, consumer goods) demonstrate stronger relationships between social disclosures and earnings metrics.

Market Response Analysis

Event study analysis of market reactions to earnings announcements reveals that firms with high-quality ESG disclosures experience more favorable market responses. Specifically, firms in the top quartile of ESG disclosure quality experience cumulative abnormal returns around earnings announcements that are 1.2 percentage points higher than firms in the bottom quartile ($p < 0.01$).

This effect is particularly pronounced when earnings surprises are negative, suggesting that strong ESG disclosure practices may provide a buffer against adverse market reactions during challenging financial periods.

Analysis of Primary Data

Primary data collection through surveys and interviews provided valuable insights into the motivations, challenges, and perceived benefits of ESG disclosures from preparers' perspectives. This section synthesizes key findings from the primary research.

Survey Results

Survey responses from 120 investor relations and sustainability officers revealed several important patterns regarding ESG disclosure practices and their perceived relationship with financial performance.

Table 3: Survey Results on ESG Disclosure Motivations and Perceived Benefits

Factor	Percentage of Respondents Rating as "Important" or "Very Important"
Motivations for Voluntary ESG Disclosure	
Investor demand	84%

Factor	Percentage of Respondents Rating as "Important" or "Very Important"
Reputation management	78%
Competitive benchmarking	67%
Risk management	63%
Employee engagement	58%
Perceived Financial Benefits	
Improved investor relations	76%
Reduced cost of capital	62%
Enhanced revenue opportunities	51%
Operational cost savings	45%
Improved talent attraction/retention	43%

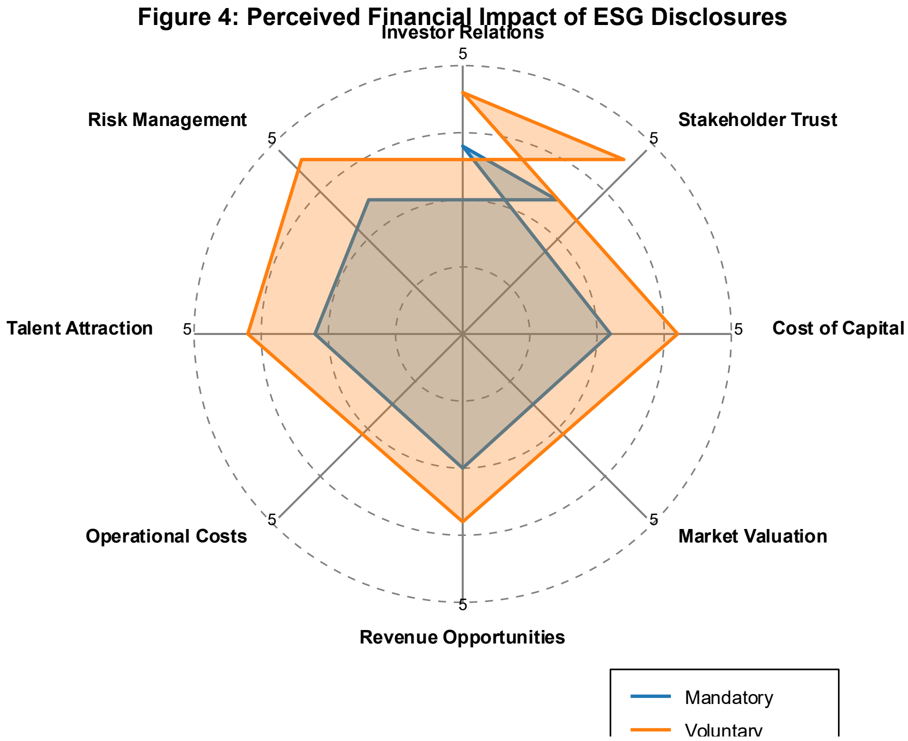

Figure 4 presents the distribution of responses regarding the perceived impact of ESG disclosures on various financial metrics.

Notably, respondents indicated stronger perceived benefits from voluntary disclosures (average rating of 4.1 on a 5-point scale) compared to mandatory disclosures (average rating of 3.4). This aligns with the secondary data analysis finding that voluntary disclosures show stronger associations with financial performance metrics.

Interview Findings

Thematic analysis of interviews with 25 executives responsible for ESG reporting decisions yielded several key insights:

1. **Strategic Integration:** Executives who viewed ESG disclosure as strategically integrated with business operations (rather than compliance-driven) reported stronger perceived financial benefits.
2. **Materiality Focus:** Companies focusing their voluntary disclosures on industry-specific material ESG factors reported more tangible financial benefits than those using generic frameworks.
3. **Disclosure Timing:** Proactive disclosure of ESG challenges (rather than waiting for external pressure) was associated with more favorable stakeholder reactions and reduced financial volatility.
4. **Data Quality Concerns:** Many executives cited data quality and measurement consistency as major challenges in ESG reporting, potentially limiting the financial benefits of disclosure.
5. **Temporal Dynamics:** Most respondents indicated that financial benefits from enhanced ESG disclosure materialize gradually, with improved investor relations occurring relatively quickly but operational impacts taking longer to manifest.

Analyst Perspectives

Consultations with financial analysts specializing in ESG integration revealed that:

1. Analysts place greater value on consistent, comparable metrics than on narrative disclosure
2. Voluntary disclosures addressing material issues specific to the company's industry and business model are considered most informative
3. Third-party assurance of ESG disclosures significantly increases their credibility and usefulness in financial analysis
4. Integrated reporting (connecting ESG factors to financial outcomes) is increasingly preferred over standalone sustainability reports

These findings from primary data complement the quantitative analysis by providing context for the observed relationships and illuminating the mechanisms through which ESG disclosures influence financial outcomes.

5. DISCUSSION

The findings from both secondary and primary data analyses contribute to a more nuanced understanding of how ESG disclosures affect corporate earnings. This section synthesizes these findings and discusses their implications.

Key Findings and Implications

1. Differential Impact of Mandatory vs. Voluntary Disclosures

Both secondary and primary data analyses consistently show that while mandatory ESG disclosures have positive associations with earnings metrics, voluntary disclosures demonstrate stronger and more consistent relationships with financial performance. This suggests that while mandatory reporting establishes a baseline for disclosure, the strategic choice to disclose beyond requirements signals management quality and forward-thinking governance that may translate into superior financial outcomes.

The complementary effect observed in the interaction term of regression models indicates that the optimal approach combines robust compliance with mandatory requirements and strategic voluntary disclosure of material ESG information. This finding has important implications for corporate disclosure strategies and regulatory design, suggesting that effective ESG disclosure frameworks should combine core mandatory elements with flexibility for company-specific voluntary reporting.

2. Temporal Dynamics of ESG Disclosure Effects

The difference-in-differences analysis and executive interviews both indicate that the financial benefits of enhanced ESG disclosure materialize gradually rather than immediately. This temporal pattern helps explain some of the mixed findings in earlier literature that focused on contemporaneous relationships between ESG factors and financial performance.

For corporate strategy, this implies that ESG disclosure initiatives should be evaluated with appropriate time horizons. Short-term cost-benefit analyses are likely to undervalue the financial benefits of comprehensive ESG reporting. For investors, this suggests that the market may not fully and immediately price the value of improved ESG disclosures, potentially creating opportunities for long-term investors to benefit from identifying companies with improving disclosure practices.

3. Materiality and Industry Context

The heterogeneous effects across ESG components and industries highlight the importance of materiality in the ESG-financial performance relationship. Governance disclosures show the strongest and most consistent relationship with earnings metrics across industries, likely reflecting their direct relevance to management quality and oversight effectiveness.

Environmental and social disclosures demonstrate more variable relationships depending on industry context. In high-environmental-impact industries, environmental disclosures show stronger associations with financial performance, while social disclosures are more financially relevant in consumer-facing industries. This aligns with the materiality principle emphasized in frameworks like SASB (Sustainability Accounting Standards Board) [12] and supports the focus on industry-specific material factors in ESG assessment.

4. Mechanisms of Financial Impact

The combined findings suggest several mechanisms through which ESG disclosures affect earnings:

a) **Information Asymmetry Reduction:** Comprehensive ESG disclosures reduce information asymmetry between management and investors, potentially lowering the cost of capital and improving market valuations. This is supported by the observed more favorable market responses to earnings announcements for firms with high-quality ESG disclosures.

b) **Operational Improvements:** The process of measuring and reporting ESG metrics may drive operational improvements and risk management practices that enhance financial performance. This mechanism operates over longer time horizons, consistent with the gradual manifestation of financial benefits observed in the DiD analysis.

c) **Stakeholder Relationship Enhancement:** ESG disclosures may strengthen relationships with key stakeholders including customers, employees, and regulators, creating intangible assets that support earnings quality and persistence. This is consistent with the observed stronger relationship between ESG disclosures and earnings persistence compared to earnings magnitude.

d) **Signaling Effect:** Voluntary ESG disclosures may signal management quality and forward-thinking governance, attracting investors who value these characteristics and potentially creating a virtuous cycle of improved access to capital and enhanced performance.

5. Quality Over Quantity

Both primary and secondary data indicate that disclosure quality matters more than quantity. Third-party assurance, materiality focus, and strategic integration of ESG reporting with business operations appear more important than the sheer volume of ESG information disclosed. This aligns with evolving best practices in sustainability reporting that emphasize focused, material disclosures over comprehensive but superficial reporting.

Theoretical Contributions

This research contributes to several theoretical perspectives on corporate disclosure and performance:

First, it extends signaling theory by demonstrating how voluntary ESG disclosures serve as effective signals of management quality and future financial performance, particularly when they go beyond regulatory requirements in material areas.

Second, it contributes to stakeholder theory by providing empirical evidence of the financial benefits of stakeholder-oriented disclosure practices, particularly in industries where stakeholder relationships are central to value creation.

Third, it advances understanding of the resource-based view of the firm by illustrating how ESG disclosure practices can develop into valuable organizational capabilities that support sustained financial performance.

Practical Implications

For corporate leaders, this research suggests several practical implications:

1. Approach ESG disclosure strategically rather than as a compliance exercise, focusing on material issues specific to the company's industry and business model.
2. Invest in data quality and measurement systems to support credible ESG reporting, as the financial benefits appear contingent on disclosure quality.
3. Anticipate a gradual realization of financial benefits from enhanced ESG disclosure, and communicate this temporal pattern to investors and other stakeholders.
4. Consider third-party assurance for ESG disclosures to enhance credibility and maximize financial benefits.

For policymakers and standard-setters, the findings suggest:

1. Design disclosure frameworks that combine core mandatory elements with flexibility for company-specific voluntary reporting.
2. Emphasize materiality and industry context in disclosure requirements rather than adopting one-size-fits-all approaches.
3. Recognize the complementary roles of mandatory and voluntary disclosures in promoting both minimum standards

and innovation in sustainability reporting.

Limitations and Future Research Directions

While this study provides valuable insights, several limitations should be acknowledged:

1. Despite efforts to establish causality through DiD analysis and control variables, endogeneity concerns cannot be entirely eliminated. Future research could employ additional identification strategies to further address this issue.
2. The focus on publicly traded companies limits generalizability to private firms. Research on how ESG disclosure affects financial performance in privately held companies would be valuable.
3. The study's temporal scope, while covering a decade, may not capture the full long-term effects of ESG disclosure practices. Longer-term studies would complement this research.

Future research could productively explore:

1. More granular analysis of how specific ESG metrics affect different dimensions of earnings
2. How the financial impacts of ESG disclosures vary across different economic and market conditions
3. The interaction between ESG disclosure and other corporate communications in shaping market perceptions and financial outcomes
4. How emerging technologies (e.g., blockchain, AI) might enhance the credibility and value of ESG disclosures

6. CONCLUSION

This research provides comprehensive evidence on the relationship between ESG disclosures and corporate earnings, distinguishing between mandatory and voluntary reporting practices. The findings reveal that while both types of disclosures demonstrate positive associations with financial performance metrics, voluntary disclosures show stronger and more consistent relationships. The complementary effects observed between mandatory and voluntary reporting suggest that optimal approaches combine robust compliance with strategic voluntary disclosure of material ESG information.

The temporal dynamics identified in this study help reconcile some of the mixed findings in earlier literature, demonstrating that the financial benefits of enhanced ESG disclosure materialize gradually rather than immediately. This highlights the importance of appropriate time horizons in evaluating ESG initiatives and suggests potential opportunities for long-term investors to benefit from identifying companies with improving disclosure practices.

The heterogeneous effects across ESG components and industries underscore the importance of materiality in the ESG-financial performance relationship. Governance disclosures show the most consistent relationship with earnings metrics across industries, while environmental and social disclosures demonstrate variable relationships depending on industry context. This supports the focus on industry-specific material factors in ESG assessment.

Several mechanisms through which ESG disclosures affect earnings have been identified, including information asymmetry reduction, operational improvements, stakeholder relationship enhancement, and signaling effects. The quality of disclosures, particularly in terms of third-party assurance, materiality focus, and strategic integration with business operations, appears more important than the quantity of information disclosed.

As regulatory frameworks for ESG reporting continue to evolve globally, this research provides valuable insights for both compliance-focused and strategic approaches to sustainability disclosure. The findings support the business case for high-quality, material ESG reporting while highlighting the limitations of viewing ESG disclosure solely as a compliance exercise.

In conclusion, this study contributes to the growing literature on the financial materiality of sustainability practices by providing empirical evidence of the relationship between different approaches to ESG disclosure and various dimensions of corporate earnings. The findings suggest that when approached strategically and with a focus on material issues, ESG disclosure can support rather than detract from financial performance, challenging traditional dichotomies between shareholder value and broader stakeholder considerations.

REFERENCES

[1] Friedman, M. (1970). The social responsibility of business is to increase its profits. The New York Times Magazine, September 13, 1970. https://www.nytimes.com/1970/09/13/archives/a-friedman-doctrine-the-social-responsibility-of-business-is-to.html

[2] Porter, M. E., & Kramer, M. R. (2011). Creating shared value. Harvard Business Review, 89(1/2), 62-77. https://hbr.org/2011/01/the-big-idea-creating-shared-value

[3] Friede, G., Busch, T., & Bassen, A. (2015). ESG and financial performance: aggregated evidence from more

than 2000 empirical studies. Journal of Sustainable Finance & Investment, 5(4), 210-233. https://www.tandfonline.com/doi/full/10.1080/20430795.2015.1118917

[4] Ioannou, I., & Serafeim, G. (2017). The consequences of mandatory corporate sustainability reporting. Harvard Business School Research Working Paper No. 11-100. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1799589

[5] Christensen, H. B., Hail, L., &Leuz, C. (2021). Mandatory CSR and sustainability reporting: economic analysis and literature review. Review of Accounting Studies, 26(3), 1176-1248. https://link.springer.com/article/10.1007/s11142-021-09609-5

[6] Dhaliwal, D. S., Li, O. Z., Tsang, A., & Yang, Y. G. (2011). Voluntary nonfinancial disclosure and the cost of equity capital: The initiation of corporate social responsibility reporting. The Accounting Review, 86(1), 59-100. https://meridian.allenpress.com/accounting-review/article-abstract/86/1/59/53865/Voluntary-Nonfinancial-Disclosure-and-the-Cost-of

[7] Grewal, J., Riedl, E. J., & Serafeim, G. (2019). Market reaction to mandatory nonfinancial disclosure. Management Science, 65(7), 3061-3084. https://pubsonline.informs.org/doi/abs/10.1287/mnsc.2018.3099

[8] Kim, Y., Park, M. S., & Wier, B. (2012). Is earnings quality associated with corporate social responsibility? The Accounting Review, 87(3), 761-796. https://meridian.allenpress.com/accounting-review/article-abstract/87/3/761/53635/Is-Earnings-Quality-Associated-with-Corporate

[9] Cahan, S. F., De Villiers, C., Jeter, D. C., Naiker, V., & Van Staden, C. J. (2016). Are CSR disclosures value relevant? Cross-country evidence. European Accounting Review, 25(3), 579-611. https://www.tandfonline.com/doi/full/10.1080/09638180.2015.1064009

[10] Eccles, R. G., Ioannou, I., & Serafeim, G. (2014). The impact of corporate sustainability on organizational processes and performance. Management Science, 60(11), 2835-2857. https://pubsonline.informs.org/doi/abs/10.1287/mnsc.2014.1984

[11] Khan, M., Serafeim, G., & Yoon, A. (2016). Corporate sustainability: First evidence on materiality. The Accounting Review, 91(6), 1697-1724. https://meridian.allenpress.com/accounting-review/article-abstract/91/6/1697/119680/Corporate-Sustainability-First-Evidence-on

[12] Sustainability Accounting Standards Board. (2018). SASB Conceptual Framework. https://www.sasb.org/standards/conceptual-framework/

[13] Barth, M. E., Cahan, S. F., Chen, L., & Venter, E. R. (2017). The economic consequences of financial reporting and disclosure regulation: A review and suggestions for future research. Journal of Accounting Research, 55(2), 524-571. https://onlinelibrary.wiley.com/doi/abs/10.1111/1475-679X.12156

[14] Matsumura, E. M., Prakash, R., & Vera-Muñoz, S. C. (2018). Capital market valuation of greenhouse gas emissions. Journal of Management Accounting Research, 30(1), 1-21. https://meridian.allenpress.com/jmar/article-abstract/30/1/1/76152/Capital-Market-Valuation-of-Greenhouse-Gas

[15] Flammer, C. (2021). Corporate green bonds. Journal of Financial Economics, 142(2), 499-516. https://www.sciencedirect.com/science/article/abs/pii/S0304405X21002403

[16] [Trivedi, P., Ravisankar, A., Kumar, G. P., Krishnamoorthy, V., Shukla, S., & Boopathi, S. (2024). Finance and Technology-Integrated Digital Economy: Circular Age of a Sustainable Digital Revolution. (pp. 91-120). https://www.igi-global.com/chapter/finance-and-technology-integrated-digital-economy/355202