



UNIVERSITY
OF ALBERTA

CPA Speaker Series:

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ESG Disclosure, Market Forces, and Investment Efficiency

Friday, November 3, 2023

2:00 PM - 3:30 PM

Location: BUS 306

ABSTRACT

This paper examines the impact of Environmental, Social, and Governance (ESG) disclosure on firm investment when investors value both financial and ESG implications of the investment. I identify conditions under which ESG disclosure is needed to channel investors' tastes for ESG into firm investment. I also characterize the optimal precision of ESG disclosure that sustains efficient investment. While it is tempting to think that more precise ESG disclosure is desirable when investors care more about ESG, I show this intuition is incomplete because it overlooks the fact that stronger tastes for ESG change how investors use information. Extending the analysis to a large economy, I show that mandating a more precise climate disclosure than would be voluntarily provided motivates self-interested firms to act on common interests in reducing emissions. That is, a regulator can leverage the real effects of disclosure to achieve a similar result as a Pigovian tax in motivating firms to internalize the externalities of their ESG activities.

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