

The Environmental, Social and Governance information creates value for the shareholder in the Euronext Stock Exchanges?

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Abstract:

This study investigates the impact of the three sustainability pillars, Environmental, Social, and Governance (ESG) information on the price of assets listed on the Stock Exchanges in the Euronext network over the period 2002-2021. Applying different specifications based on the Ohlson (1995) valuation model, the results show that investors react differently to the sustainability information in different markets. In Amsterdam and Brussels, the market positively values better Environmental and Social practices. The opposite effect is observed in the firms listed in the Paris stock exchange, whereas no discernible effect is detected in the firms listed in the Lisbon Stock Exchange.

1. Introduction

The present paper presents an analysis of the impact of Corporate Social Responsibility (CSR), in terms of the Environmental and Social conduct of the firm and Governance practices in firm valuation in the firms listed in Stock Exchanges in the Euronext Group.

In this millennium the way firms and society at large are oriented are in line with increasingly short and intense innovation waves. The maximization of firm value, as suggested by Sucuahi and Cambarihan (2016) is important for investors and society. A way to achieve these goals the firm needs to take actions in order to meet what is valued by society at every moment. Conventional analysis would focus on operating aspects and investment return alone, ignoring the interests of other stakeholders within the firm (like employees) and other ethical, social and environmental practices. Recently, as mentioned by Li *et al* (2018), CSR practices are more and more important and firms are beginning to incorporate these practices, including them on the firm's performance review and assessment. With regard to performance assessment it is important to realize the greater impact of shareholder activism with respect to environmental, social and governance generates the necessity from management to incorporate better CSR practices. As a matter of fact, the allocated value in sustainable investment has seen an important increase, in particular post-COVID. Generally speaking, according to Sudipta *et al* (2022), a positive relation between CSR practices and firm value as been observed, even during the pandemic years.

To this date, empirical research has been observed a positive relation between better CSR performance and firm value. Mostly the studies focused in this effect in developed countries, such as Lourenço *et al* (2012), Schadewitz and Niskala (2010), Cardamone *et al* (2012), de Klerk *et al* (2015) and Kaspereit and Lopatta (2016). In developed countries not only firms are better able to effectively allocate resources into CSR activities but also, that information is more likely to be conveyed to investors and the market at large. Nevertheless, more recently empirical studies focusing on the relation between CSR practices in developing countries, like Miralles-Quiroz *et al* (2018) and Yoon *et al* (2018) have found similar results.

This paper aims to make a similar analysis to the information impact of CSR best practices in firm valuation in the Lisbon, Paris, Brussels and Amsterdam's Stock Exchange. The four represent a diverse group of Financial markets: the Portuguese financial market, although technically a developed financial market since 1998, it is a small market, with a relatively small number of mostly local firms, so it shares features of both developed and developing markets, making an interesting market to study, whereas the other three financial markets are highly developed markets that list many global firms. It would be interesting to understand if, financial markets that share the same exchange network would still show diverse firm and investor behavior.

In order to measure the CSR and Governance practices of the firms listed in the Lisbon Stock Exchange we use ESG (Environmental, Social and Governance) scores published

by Thomson Reuters Eikon and include them in a valuation model, using the firm's financial information. The study uses a sample period between 2002 and 2021.

The rest of the paper is organized as follows. In Section 2 we describe the existing literature in order to place this paper in context. In Section 3 we present the methodology used for the empirical research. In Section 4 we present the dataset used in the paper. We detail the source for the ESG scores and describe its content. Also we present the financial data used in the empirical research. Section 5 shows the results obtained and Section 6 concludes.

2. Literature Review

In what follows we present a brief review of the creation of ESG scores and the theoretical literature linking ESG performance and Firm Value

2.1 ESG Scores

The ESG scores were first proposed in the United Nations Principles of Responsible Investment report as a factor determining investment decisions. These scores evaluate a firm's environmental, social and governance practices and combines the performances of these practices.

Initially ESG scores suffered from lack of consistency and lacked clear criteria for evaluating performance, as it based on self reports and internal surveys. According to Li and Polychronopoulos (2020) there are currently over 70 firms that provide a ESG rating classification. This fact raises the potential that different rating build using different criteria and different methodologies may not be consistent between them.

Among the several creators of ESG ratings, Thomson Reuters Eikon stands out. Specifically, the new ratings have been designed to transparently and objectively measure a company's ESG performance in the three environmental, social, and corporate governance areas. These ratings are based on the collection and standardization, by specialized analysts, of gross non-financial data derived from publicly available information, such as sustainability reports, financial reports and company websites. This was the source of ESG scores used for this study.

2.2 ESG performance and Firm Value

The relation between CSR and firm value has been subject of extensive research, and two perspectives can be defined: On the one hand, the value-enhancing theory. According to this, a manager's concern for long term sustainability will drive long term shareholder value and returns. Gerard (2019) called this approach "the doing well by doing good". This process can be achieved in two ways. Firstly, as mentioned by Hillman and Klein (2001) by establishing good relationships with important stakeholders, the firm obtains reputational gains which will be reflected in either greater profitability and greater resilience when facing adverse events. Secondly, as Waddock and Graves (1997)

explain, the effective implementation of CSR practices signals high management quality, which should be rewarded by the firm's stakeholders.

On the other hand, the shareholder expense theory, states that a firm in order to achieve better CSR practices, may need to engage in a significant level of expenditures which will affect the short term profitability. While these expenses have the effect of improving the firm's reputation, as Aupperle et al (1985) states, it may not be enough to enhance the long term profitability, and therefore firm value. The resulting relationship between CSR and firm value may end up being U-shaped, as Barnett and Salomon (2006) find. This means that improving CSR practices are only useful if the costs of implementing them are less than expected future benefits, and as Cornell and Damodaran (2020) conclude, not all firms will find that promoting CSR will deliver higher value.

Finally, with respect to improved governance arrangements within the firm and the link to greater firm value, the evidence is stronger, as better governance arrangements reduces agency problems and improve the alignment of the firm's stakeholders. Examples of the positive link between corporate governance and firm value include Gompers et al (2003) and Bebchuk et al (2009).

3. Methodology

The model selected to examine the effect of ESG scores on firm performance is Ohlson's (1995) valuation model. This model states that the market value of equity is a function of financial information (including book value and accounting results). Specifically, we use the modification proposed by Barth and Clinch (2009), which scales the variables used in Ohlson (1995) using the number of shares, mitigating scale effects. This will be the benchmark valuation model:

$$P_{i,t} = a_0 + a_1BVPS_{i,t} + a_2EPS_{i,t} + \varepsilon_{i,t} \quad (1)$$

In specification (1) the dependent variable $P_{i,t}$ corresponds to the price per share of firm i at the end of year t . The two independent variables $BVPS_{i,t}$ and $EPS_{i,t}$ correspond respectively to the Book Value per share and the Earnings per share of firm i at the end of year t .

The model can be expanded to include other non-financial variables, which nonetheless include value-relevant information, therefore generating a valuation model which the variable $X_{i,t}$ corresponds to a relevant variable or set of variables of interest that will capture the impact of ESG scores in the market value of equity

$$P_{i,t} = a_0 + a_1BVPS_{i,t} + a_2EPS_{i,t} + a_3X_{i,t} + \varepsilon_{i,t} \quad (2)$$

This extension of the Barth and Clinch (2009) model has been widely used in the CSR literature, namely by Miralles-Quiroz *et al* (2017), Miralles-Quiroz *et al* (2018), Lourenço *et al* (2012), Schadewitz and Niskala (2010), Cardamone *et al* (2012), Yoon *et al* (2018) and de Klerk *et al* (2015), just to mention a few.

In model (2) we use a firm's ESG score in order to measure the CSR performance and propose five different specifications:

$$P_{i,t} = a_0 + a_1BVPS_{i,t} + a_2EPS_{i,t} + a_3ESG_{i,t-1} + \varepsilon_{i,t} \quad (3)$$

$$P_{i,t} = a_0 + a_1BVPS_{i,t} + a_2EPS_{i,t} + a_3ENV_{i,t-1} + \varepsilon_{i,t} \quad (4)$$

$$P_{i,t} = a_0 + a_1BVPS_{i,t} + a_2EPS_{i,t} + a_3SOC_{i,t-1} + \varepsilon_{i,t} \quad (5)$$

$$P_{i,t} = a_0 + a_1BVPS_{i,t} + a_2EPS_{i,t} + a_3GOV_{i,t-1} + \varepsilon_{i,t} \quad (6)$$

$$P_{i,t} = a_0 + a_1BVPS_{i,t} + a_2EPS_{i,t} + a_3ENV_{i,t-1} + a_3SOC_{i,t-1} + a_3GOV_{i,t-1} + \varepsilon_{i,t} \quad (7)$$

We use four different CSR performance variables to analyze the impact of CSR in equity valuation: the global ESG score, as model (3) and the specific scores for each of the ESG pillars (Environmental, Social and Governance). The impact of each pillar is analyzed not just individually, in models (4), (5) and (6), but also in a specification in which all three pillars are included simultaneously, in model (7). The interest of this last specification is, although the ESG global score is an arithmetic average of the scores of each pillar, to better understand which pillar is more relevant for investors and how the score in one pillar affects the impact of another pillar.

Differently from most previous studies, we use a one year lagged value for each score in the specifications. The reason for this choice is that we are trying to understand how investors react when publicly information about CSR practices is revealed. A positive or negative impact of CSR practices would naturally impact the independent variables of model (1), and we are looking to understand if investors reward or punish firms with better known scores of CSR practices, for given levels of information that can be extracted from financial statements. If investors reward firms with better CSR practices, we expect the coefficients that accompany the ESG scores to be significant and positive.

4. Database

The database used in this paper consists of two types of information: the Corporate Social Responsibility information and the financial information of the companies listed in the Amsterdam, Brussels, Paris and Lisbon Stock Exchanges.

Several rating agencies measure ESG performance, and in this study the ESG ratings measured by Thomson Reuters Eikon were used. The financial information necessary to implement the base model (share price, book value per share at the end of the year and annual earnings per share for the firms between 2002 and 2021) was obtained from the Thomson Reuters Eikon database.

A sample of 372 firms (82 firms from the Amsterdam Stock Exchange, 55 firms from the Brussels Stock Exchange, 186 firms from the Paris Stock Exchange and 19 firms from the Lisbon Stock Exchange), with 3,359 ESG scores observations was collected. Presented below is a set of Descriptive Statistics for the data collected in each exchange.

Table 1A. Descriptive Statistics (Amsterdam)

	Price	BVPS	EPS	ESG Score	Env. Score	Soc. Score	Gov. Score
Average	32,85	19,63	1,75	53,96	53,76	61,24	54,92
Max	2018,00	791,60	167,21	92,91	98,47	96,70	98,56
3rd Quartile	36,21	21,97	2,15	67,74	77,89	78,24	73,36
Median	19,70	9,55	1,00	56,70	59,24	65,52	57,29
1st Quartile	9,47	4,63	0,18	41,51	35,63	45,56	35,62
Min	0,01	-18,10	-52,61	6,42	0,00	5,08	3,33
Standard Deviation	76,25	41,62	8,48	18,70	28,32	21,48	23,17
Count	1095	1179	1181	728	724	724	724

Table 1B. Descriptive Statistics (Brussels)

	Price	BVPS	EPS	ESG Score	Env. Score	Soc. Score	Gov. Score
Average	169,69	111,84	5,27	42,76	41,25	42,61	48,02
Max	20934,69	12676,85	2251,72	86,57	93,86	92,66	93,97
3rd Quartile	51,10	38,13	3,43	59,12	62,57	63,10	67,49
Median	28,16	14,85	1,40	42,50	42,89	41,61	49,64
1st Quartile	12,71	5,76	0,33	27,69	17,81	23,08	29,18
Min	0,13	-1035,58	-3640,00	2,05	0,00	1,51	1,67
Standard Deviation	1426,28	875,24	193,59	20,06	28,60	24,02	22,89
Count	914	958	960	543	543	543	543

Table 1C. Descriptive Statistics (Paris)

	Price	BVPS	EPS	ESG Score	Env. Score	Soc. Score	Gov. Score
Average	54,72	26,26	1,63	53,28	59,46	59,49	49,38
Max	6690,65	2908,47	326,78	93,98	99,20	98,47	98,30
3rd Quartile	54,35	30,43	3,08	67,17	81,67	79,28	68,38
Median	26,05	14,03	1,22	54,05	62,92	61,77	49,98
1st Quartile	11,92	5,76	0,24	41,03	41,79	40,80	30,82
Min	0,09	-1227,96	-1513,82	3,28	0,00	0,44	2,98
Standard Deviation	201,36	111,39	30,24	18,34	26,49	22,93	22,85
Count	3569	3734	3752	1884	1884	1884	1884

	Price	BVPS	EPS	ESG Score	Env. Score	Soc. Score	Gov. Score
Average	9,23	5,53	-0,12	53,00	53,26	57,73	49,70
Max	324,85	147,36	19,47	85,13	91,39	93,94	93,06
3rd Quartile	7,59	2,89	0,40	68,47	74,67	77,05	67,02
Median	3,38	1,89	0,22	56,25	59,56	62,37	50,22
1st Quartile	1,76	1,28	0,11	39,68	32,85	39,05	31,03
Min	0,07	-0,67	-28,38	8,05	0,00	3,25	5,76
Standard Deviation	29,23	16,70	3,88	19,17	25,40	23,11	21,92
Count	334	346	349	208	208	208	208

The next set of tables present the matrix of correlations between the variables. The correlation between the global ESG score and the individual pillars scores are very strongly correlated given the fact the global ESG score is a weighted average of the individual pillar scores. However there is a pattern in the correlation between the scores for each pillar; whereas the correlation between the Environmental and Social scores is very strong, the correlation for these scores to the Governance score is considerably lower. This comes in line with Gerard (2019), in which he distinguishes between the ES and the G, calling the former actual CSR scores and Governance being in a different dimension. Cornell and Damodaran (2020) also question the inclusion of governance in a score for CSR.

	Price	BVPS	EPS	ESG Score	Env. Score	Soc. Score	Gov. Score
Price	1.0000						
BVPS	0.3723***	1.0000					
EPS	0.2802***	0.7984***	1.0000				
ESG Score	0.1262***	0.2044***	0.0264	1.0000			
Env. Score	0.0673*	0.1988***	-0.0130	0.7641***	1.0000		
Soc. Score	0.0832**	0.1565***	0.0385	0.8059***	0.6597***	1.0000	
Gov. Score	0.0608	0.1378***	0.0410	0.6368***	0.4789***	0.4788***	1.0000

The symbols ***, ** and * represent that the p-values are smaller to 1%, 5% and 10% respectively

	Price	BVPS	EPS	ESG Score	Env. Score	Soc. Score	Gov. Score
Price	1.0000						
BVPS	0.9042***	1.0000					
EPS	0.4312***	0.6450***	1.0000				
ESG Score	0.0635	0.0357	0.0419	1.0000			
Env. Score	0.1656***	-0.1507***	0.0350	0.8284***	1.0000		
Soc. Score	0.0614	-0.0355	0.0366	0.8651***	0.6792***	1.0000	
Gov. Score	0.0518	0.0413	0.0607	0.3247***	0.3247***	0.2814***	1.0000

The symbols ***, ** and * represent that the p-values are smaller to 1%, 5% and 10% respectively

Table 2C. Correlation Matrix (Paris)

	Price	BVPS	EPS	ESG Score	Env. Score	Soc. Score	Gov. Score
Price	1.0000						
BVPS	0.4964***	1.0000					
EPS	0.0007	-0.0619***	1.0000				
ESG Score	-0.0165	0.0707	-0.0279	1.0000			
Env. Score	-0.0685***	0.0652***	-0.0126	0.7357***	1.0000		
Soc. Score	-0.0402	0.0182	-0.0053	0.8006***	0.6788***	1.0000	
Gov. Score	0.0145	0.0881***	-0.0550**	0.6417***	0.3599***	0.4113***	1.0000

The symbols ***, ** and * represent that the p-values are smaller to 1%, 5% and 10% respectively

Table 2D. Correlation Matrix (Lisbon)

	Price	BVPS	EPS	ESG Score	Env. Score	Soc. Score	Gov. Score
Price	1.0000						
BVPS	0.9467***	1.0000					
EPS	-0.0866	-0.2300***	1.0000				
ESG Score	-0.1136*	-0.1198*	0.1107	1.0000			
Env. Score	-0.1912*	-0.2122**	0.1279	0.8400***	1.0000		
Soc. Score	-0.0386	-0.0519	0.1302	0.8941***	0.7270***	1.0000	
Gov. Score	0.0494	0.0890	-0.0303	0.6047***	0.2784***	0.3979***	1.0000

The symbols ***, ** and * represent that the p-values are smaller to 1%, 5% and 10% respectively

With respect to the correlation between the different ESG scores and the market value of the firms, we observe considerable differences for each of the markets. In Amsterdam the correlations are positive and statistically significant for all measures, whereas in the other markets this does not happen. We should note that this observation should not project the empirical results that follow, for the reason that the pair wise correlations are for contemporaneous values of the variables, but in the model we use the lagged variables: we are not looking for the direct impact of ESG practices, but if investors use the publicly available information for those practices (that are available one year later, at time of publication) in order to reward or punish those firms.

5. Empirical Results

As explained before we are implementing five models expanding on the modified Barth and Clinch (2009) valuation model: one model using the global ESG performance score, three models using each of the different performance pillars scores and one final in which we included all three individual performance pillar scores. The preliminary results of the regressions are presented in the next set of Tables.

Table 3A. The effect of ESG Scores on Firm Performance (Amsterdam)

Variable	Base Model	Model 1	Model 2	Model 3	Model 4	Model 5
BVPS	1.4762***	2.0080***	2.0069***	2.0029***	2.0739***	2.0196***
EPS	1.0924***	1.5003***	1.5811***	1.5036***	1.4283***	1.5729***
ESG₋₁		0.2500				
ENV₋₁			0.2675*			0.2917*
SOC₋₁				0.1870		-0.0263
GOV₋₁					0.0842	-0.0401
Intercept	4.0118	-19.3099*	-20.0915**	-16.9404*	-11.4879	-17.8202
N	1052	688	688	688	688	688
R²	0.191	0.167	0.171	0.166	0.164	0.172
AdjR²	0.124	0.057	0.062	0.055	0.053	0.059
F	114.48***	40.49***	41.65***	40.02***	39.30***	24.93***

The numbers refer to the estimated regression coefficients. The symbols ***, ** and * represent that the p-values are smaller to 1%, 5% and 10% respectively

Table 3B. The effect of ESG Scores on Firm Performance (Brussels)

Variable	Base Model	Model 1	Model 2	Model 3	Model 4	Model 5
BVPS	2.0453***	2.0019***	2.0261***	1.9996***	2.0170***	2.0492***
EPS	-2.6829***	-2.7301***	-2.7888***	-2.7216***	-2.7636***	-2.8448***
ESG₋₁		3.0009				
ENV₋₁			-1.4500			-6.1939**
SOC₋₁				4.8122**		9.1080***
GOV₋₁					-0.7618	-0.7706
Intercept	-55.6943**	-217.5252*	-32.5036	-294.1338***	-54.2245	-192.0964
N	900	530	530	530	530	530
R²	0.785	0.802	0.802	0.804	0.802	0.809
AdjR²	0.770	0.778	0.778	0.781	0.778	0.785
F	1534.58***	638.52***	636.82***	647.39***	635.74***	396.99**

The numbers refer to the estimated regression coefficients. The symbols ***, ** and * represent that the p-values are smaller to 1%, 5% and 10% respectively

Table 3C. The effect of ESG Scores on Firm Performance (Paris)

Variable	Base Model	Model 1	Model 2	Model 3	Model 4	Model 5
BVPS	1.1646***	0.7920***	0.7892***	0.7882***	0.7891***	0.7856***
EPS	0.3076***	-0.2180*	-0.2065	-0.2106*	-0.2118*	-0.1898
ESG₋₁		-0.5180				
ENV₋₁			-0.7409***			-0.7083*
SOC₋₁				-0.7041***		-0.4151
GOV₋₁					0.3584	0.8407**
Intercept	22.8270***	77.1702***	93.9149***	91.5761***	31.4751*	74.9473***
N	3469	1780	1780	1780	1780	1780
R²	0.396	0.225	0.229	0.227	0.224	0.233
AdjR²	0.358	0.130	0.135	0.133	0.130	0.138
F	1065.12***	153.16***	156.81***	155.52***	152.57***	96.14***

The numbers refer to the estimated regression coefficients. The symbols ***, ** and * represent that the p-values are smaller to 1%, 5% and 10% respectively

Variable	Base Model	Model 1	Model 2	Model 3	Model 4	Model 5
BVPS	1.7507***	1.7591***	1.7581***	1.7616***	1.7607***	1.7603***
EPS	0.9860***	1.7098***	1.7071***	1.7065***	1.7091***	1.7096***
ESG₋₁		-0.0246				
ENV₋₁			-0.0112			-0.0027
SOC₋₁				-0.0140		0.0000
GOV₋₁					-0.0272	-0.0260
Intercept	-0.1119	1.7959	1.0920	1.2898	1.8364	1.9261
N	326	200	200	200	200	200
R²	0.875	0.987	0.897	0.897	0.897	0.897
AdjR²	0.867	0.885	0.885	0.885	0.885	0.884
F	1071.01***	516.46***	515.57***	515.70***	517.21***	306.85***

The numbers refer to the estimated regression coefficients. The symbols ***, ** and * represent that the p-values are smaller to 1%, 5% and 10% respectively

The regression results show that the impact of the ESG scores on Firm valuation is not uniform across the different exchanges. In Amsterdam, the lagged Environmental Pillar score has a positive and statistically significant effect; in Brussels, the lagged Social Pillar score has a positive and statistically significant effect; in Paris, the lagged Environmental and Social Pillar scores have a negative and statistically significant effect. As far as Lisbon stock Exchange, the ESG scores do not show a statistically significant effect on firm valuation.

6. Conclusion

The relation between CSR practices and firm value is a question that has gained the attention of many researchers, in part driven by the fact that more attention is being drawn by investors to the sustainable investments. As it was referred, several studies, both in developed markets and developing markets have shown a positive relation between share prices and information that measures the firm's performance in CSR and Governance practices.

This paper adds to this literature by analyzing the impact of ESG scores in the share prices of firms listed in a set of Stock Exchanges that share the same trading platform. The goal is to understand if, although sharing the same trading platform, as it was mentioned, differences between the markets, like different stages of development, liquidity and depth, would be visible in the impact available public information on CSR and Governance practices have on firm valuation.

Our findings were that during the period analyzed, the attitudes of investors are, in fact, different, with respect to the CSR practices of firms listed in the Portuguese, French, Belgium and Dutch stock markets.

Future research is needed to further investigate the results, in particular to incorporate variables that reflect the different features that distinguish the markets from each other, but also to explore possible common features (for instance to analyze industry fixed effects and the inclusion in major stock indexes). Also, we need to keep in mind that a

reason for the results found could be the limitations, criteria and the construction methodology of the ESG scores and the way the ESG performance is adequately conveyed to investors.

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