Does transparency about ESG help enforcers uncover corporate misconduct?

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Synopsis

The research problem
In this study, we examine how transparency about environmental, social, and corporate governance (ESG) information helps enforcers uncover corporate misconduct.

Setting
We exploit the 2017 ESG rating coverage expansion from Russell 1000 to Russell 2000 firms (hereafter, "treated firms") by Thomson Reuters Asset4 as an exogenous shock to the availability of ESG information.

The test hypothesis
Our hypothesis is that the expansion of ESG information is associated with an increase in detected corporate misconduct.

Adopted methodology
We use a difference-in-differences design to test the hypotheses.

Findings
Our difference-in-differences design shows that for treated firms, enforcers detect 4.81% more cases of corporate misconduct relative to the control group. In additional tests, we document that the effect of ESG information helping enforcers uncover corporate misconduct is more pronounced for environmental and general enforcers.

Keywords: ESG information, Corporate misconduct, Enforcement

JEL Classifications: G38, M14, M40, M48

Data availability: Data are available from commercial databases and public sources identified in the paper.

Conflict of interest: The authors declare that they have no conflicts of interest.