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Does Sustainability Transparency Pay?

NATHALIA RAMAJO ESTEVES

PRISCILA BORIN DE OLIVEIRA CLARO

Introdução
Authors have been studying the relationship between firms' sustainability and financial performance (Friede, Busch & Bassen, 2015; Buallay, 2019; Auer & Schuhmacher, 2016; Rivoli, 2003; Schröder, 2007; Lean, And & Smyth, 2015; Brzeszczy?ski & McIntosh, 2013; Awaysheh et al., 2020). Results vary, from positive to negative, and neutral effect depending on the type of methodology and data used. On the other hand, few studies seek to understand the effect of sustainability transparency on firms' financial performance (Eccles, Serafeim & Krzus, 2011; Akhigbe, McNulty & Stevenson, 2013).

Problema de Pesquisa e Objetivo
The present study aims to contribute to the discussion by evaluating the relationship between ESG transparency and firms' returns. Our hypothesis is that firms with higher scores on ESG transparency would achieve higher returns.

Fundamentação Teórica
The literature is scarce on the effect of ESG transparency on firms' returns. For example, Li et al. (2018) found a positive relation between ESG disclosure level and firm value (Li et al., 2018). Since ESG disclosure is voluntary, it directly influences stakeholders' perception of firms' transparency (Li et al., 2018). These findings are also in line with results of Akhigbe, McNulty & Stevenson (2013) and of Wang and colleagues (2020). The last evaluated 289 Chinese listed firms and found that environmental information disclosure positively (directly) affects ROE (Wang et al., 2020).

Metodologia
This paper investigates the relationship between sustainability transparency and financial performance. It focuses on public firms doing business in Brazil. For that purpose, we gathered data from Bloomberg of Returns, ESG Disclosure Score, Assets and Industry from 103 public Brazilian firms in the period of 2010 to 2019. We ran a fixed effects regression, using the software R, between Returns and the ESG Disclosure Score, controlling for firm size (log(Assets)) and industry.

Análise dos Resultados
Consistent with our hypothesis, we can see that ESG Disclosure Score has a positive (1.61) and significant (p-value of 0.06) effect on Returns. More specifically, a 1 point increase in ESG Disclosure Score will lead to a 1.61 percentage points increase in Returns.

Conclusão
Sustainability transparency pays because it leads to greater returns. Studying 103 public Brazilian firms, by running a fixed effects regression, we found that firms with higher ESG Disclosure Scores have higher returns, in line with previous studies (Akhigbe, McNulty & Stevenson, 2013). We believe the reason for that strong and strategic ESG performance leads to preferential treatment from investors compared to companies whose environmental or other practices may pose a greater financial risk. Thus, clearly communicating how the firm's purpose is aligned to the ESG performance is crucial.

Referências Bibliográficas
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Palavras Chave
Sustainability, Transparency, ESG