

# *The Impact of ESG Information Disclosure on Corporate Risk and Financial Performance*

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**Abstract:** In recent years, as the concept of sustainable development has been widely promoted, Environmental, Social, and Governance (ESG) information disclosure has become a key indicator for measuring corporate performance. This study aims to explore the impact of ESG information disclosure on corporate risk management and financial performance. Through literature review, theoretical analysis, and case studies, this paper summarizes the role of ESG disclosure in reducing operational, reputational, and legal risks and analyzes its dual effects on short-term and long-term financial performance. The study finds that systematic ESG disclosure not only helps improve corporate transparency and public trust but also plays a critical role in enhancing capital market performance and reducing capital costs. The paper concludes by discussing the challenges and future directions for ESG disclosure, providing theoretical and practical references for both corporations and policymakers.

## **1. Introduction**

In recent years, the widespread dissemination of sustainable development concepts has led to Corporate Social Responsibility (CSR) and Environmental, Social, and Governance (ESG) factors becoming essential standards for measuring corporate performance. ESG information disclosure, as a symbol of corporate transparency and accountability, is regarded by many investors and stakeholders as a crucial factor in decision-making. By disclosing their performance in areas such as environmental protection, social responsibility, and corporate governance, companies can enhance their public image, strengthen investor confidence, and maintain a competitive edge in an ever-changing market. Globally, particularly in Europe and North America, many countries and regions have gradually implemented mandatory ESG disclosure regulations, requiring companies to regularly report their performance in these areas, thus pushing firms to take on more social responsibility and subjecting their actions to public scrutiny. However, despite the growing recognition of the importance of ESG information disclosure, its specific impact on corporate operations remains debated. Some studies suggest that ESG disclosure helps reduce operational risks and improve financial performance, particularly by mitigating legal and reputational risks [1]. On the other hand, other research argues that ESG disclosure may increase operational costs,

particularly in markets with high transparency demands, where companies must allocate substantial resources to ensure the accuracy and completeness of their disclosed information. In light of this, the present study seeks to further explore the impact of ESG information disclosure on corporate risk management and financial performance. Through literature review and case analysis, it examines how companies' ESG disclosure practices influence operational risks and financial outcomes. The significance of this study lies in providing corporate managers and investors with a more comprehensive decision-making basis, helping them better understand the intrinsic value of ESG disclosure and its long-term impact on corporate development. Additionally, the research offers theoretical support for policymakers in considering the operational realities and market demands when formulating ESG-related policies. Through case studies of companies across different regions and industries, the paper aims to reveal the potential challenges in applying ESG disclosure and explores how to optimize disclosure mechanisms to promote balanced corporate development on the path to sustainability [2].

## **2. Theoretical Basis of ESG Information Disclosure**

The theoretical foundation of ESG (Environmental, Social, and Governance) information disclosure is supported by various management and economic theories, which offer valuable insights into why companies should disclose ESG information. This disclosure helps businesses manage risks, enhance performance, and maintain competitiveness in a rapidly evolving market landscape. Several key theories provide the intellectual underpinning for understanding the importance of ESG disclosure, each offering a distinct perspective on how such practices benefit both companies and their stakeholders. First, Stakeholder Theory offers a crucial perspective by asserting that companies are not solely responsible to their shareholders but also to a broader range of stakeholders. These stakeholders include employees, customers, suppliers, local communities, and the environment. By disclosing ESG information, companies demonstrate their commitment to fulfilling their responsibilities toward these diverse groups. This commitment to social responsibility and sustainability is essential for maintaining trust and reducing potential conflicts or uncertainties that may arise when stakeholders feel neglected. For example, companies that disclose efforts to reduce carbon emissions or improve labor conditions can alleviate concerns among environmentally conscious customers or labor organizations. In this way, stakeholder theory underscores the importance of balancing the interests of various parties to ensure long-term success and stability. Secondly, Sustainable Development Theory is another foundational concept that emphasizes the need for companies to balance economic growth with social and environmental responsibility. According to this theory, pursuing financial goals at the expense of environmental or social degradation is unsustainable in the long run. ESG disclosure serves as a platform for companies to showcase their efforts in balancing these often competing interests. By openly sharing their initiatives related to environmental protection, social responsibility, and governance practices, companies can avoid reputational risks that stem from negative environmental or social impacts. For example, firms that invest in renewable energy projects and disclose such investments can enhance their reputation, appeal to socially responsible investors, and ultimately achieve long-term economic gains. Signaling Theory further explains the value of ESG disclosure from an information economics perspective. According to this theory, companies that actively disclose their positive ESG performance send a clear signal to the market about their stable operations and long-term growth prospects. This signal is crucial in attracting investors who prioritize sustainability and are interested in supporting companies with a long-term commitment to responsible practices. For these investors, ESG disclosure offers a reliable way to assess a company's long-term financial health, risk management capabilities, and overall stability[3]. By providing transparency about their ESG

efforts, companies can increase their chances of securing low-cost financing and long-term investment support, positioning themselves as leaders in a competitive environment. In addition, Resource Dependence Theory plays an important role in understanding the strategic benefits of ESG information disclosure. This theory posits that companies rely on their external environments and social networks to access critical resources. By disclosing their ESG practices, companies can solidify their positions within the supply chain, demonstrating their commitment to sustainability and earning the trust and support of resource providers, suppliers, and partners. For instance, a company that openly shares its environmentally friendly supply chain practices may attract partnerships with other organizations that share similar values, thereby enhancing its market reputation and gaining strategic advantages in resource acquisition. In summary, the theoretical foundation of ESG disclosure is grounded in several key management and economic theories, including Stakeholder Theory, Sustainable Development Theory, signaling Theory, and Resource Dependence Theory. Together, these theories offer a comprehensive framework for understanding the strategic significance of ESG disclosure. Guided by these theoretical perspectives, companies can effectively balance financial performance and social responsibility in a complex and dynamic market environment, ultimately achieving long-term sustainability and competitive advantage. By embracing ESG disclosure, businesses can not only manage risks and enhance their reputation but also unlock new opportunities for growth and success[4].

### **3. The Relationship Between ESG Information Disclosure and Corporate Financial Performance**

The relationship between ESG information disclosure and corporate financial performance has sparked widespread discussion and research in recent years. Many scholars and practitioners believe that ESG disclosure not only enhances a company's social image but also reduces risks, improves resource allocation, and strengthens competitiveness, ultimately positively impacting financial performance. This section explores how ESG disclosure influences financial performance in both the short and long term. In the short term, ESG information disclosure can rapidly improve a company's market image and capital market performance. Investors are increasingly focusing on a company's ESG performance, particularly in areas like climate change, labor rights, and corporate governance. By disclosing ESG information, companies can effectively communicate their commitments and practices in these areas, attracting investors who prioritize sustainability. These investors typically seek long-term returns and are willing to provide lower-cost capital to well-performing companies. Empirical studies show that companies with comprehensive ESG disclosures experience lower stock price volatility and more positive market reactions, especially during periods of economic uncertainty. Thus, in the short term, ESG disclosure helps stabilize stock prices, reduce capital costs, and expand financing options. In the long term, ESG information disclosure has a deeper impact on corporate financial performance, particularly in improving operational efficiency and enhancing market competitiveness[5]. Companies that actively disclose ESG information can not only reduce legal risks and environmental management costs but also optimize resource allocation, thereby increasing operational efficiency. For example, effective environmental management practices can reduce energy consumption and emissions costs, saving expenses in the process. Furthermore, well-structured social responsibility programs help boost employee satisfaction and productivity, lowering turnover rates and reducing recruitment and training costs. Improved corporate governance structures also mitigate managerial moral hazards, promote transparency in decision-making, and reduce financial losses caused by management errors. Moreover, ESG information disclosure can increase a company's brand value and customer loyalty, leading to a larger market share. Globally, an increasing number of consumers prefer to support

companies that demonstrate strong performance in environmental protection and social responsibility. Through continuous and transparent ESG disclosures, companies can establish a responsible brand image, attracting more socially conscious consumers and business partners, thereby enhancing market competitiveness. This long-term brand effect not only helps companies increase sales revenue but also opens up more strategic partnership opportunities. However, despite the widely recognized positive impact of ESG disclosure on financial performance, challenges and controversies remain. Some companies argue that the ESG disclosure process is complex and costly, especially for small and medium-sized enterprises (SMEs), where the diversity of disclosure standards and the complexity of data collection can place a burden on operations. Additionally, not all ESG investments can immediately translate into financial returns in the short term, leading some companies to question the actual benefits of ESG disclosure. Therefore, companies need to balance short-term costs with long-term gains when advancing ESG disclosures, ensuring that the disclosed content effectively supports their financial goals and strategic direction. In conclusion, ESG information disclosure significantly impacts corporate financial performance by improving capital market performance in the short term and enhancing competitiveness and operational efficiency in the long term. Systematic ESG disclosure allows companies to reduce risks, improve resource utilization, and increase brand value and market share, ultimately achieving higher financial performance[6].

#### **4. The Current State and Challenges of ESG Information Disclosure**

In recent years, as the concept of sustainable development has been widely promoted globally, Environmental, Social, and Governance (ESG) information disclosure has gradually become an essential part of corporate operations. However, despite the growing emphasis on ESG disclosure, there are still significant differences across regions, industries, and company sizes in how it is implemented. Different countries and regions focus on various aspects of ESG disclosure legislation and enforcement. In Europe and North America, for instance, more and more companies are required by stringent regulations to regularly disclose ESG information. For example, the European Union's Non-Financial Reporting Directive (NFRD) mandates that large companies disclose their performance in environmental protection, social responsibility, and governance structure, driving European companies to lead in ESG practices. Although North America has relatively relaxed mandatory disclosure requirements, the increasing focus of investors on sustainability has prompted many companies to voluntarily disclose ESG information to enhance their image in the capital market and strengthen investor confidence. In Asia, despite a later start, ESG information disclosure has shown rapid growth in recent years. Regulatory agencies in countries like China, Japan, and South Korea have gradually introduced policies to encourage companies to strengthen their ESG information disclosure[7]. For instance, the China Securities Regulatory Commission has issued guidelines on ESG disclosure to provide clearer direction for companies, promoting sustainable development. However, ESG disclosure in Asia still faces challenges such as insufficient data transparency and inconsistent disclosure content, leaving a significant gap compared to Europe and North America. Industry-wise, different sectors prioritize various aspects of ESG disclosure. High-environmental-risk industries like energy and manufacturing tend to focus on environmental factors, while the financial and technology sectors pay more attention to social responsibility and corporate governance. At the same time, companies face multiple challenges in ESG disclosure. First, the lack of unified global ESG disclosure standards is a major issue. Although regulatory bodies and rating agencies in different countries have issued varying requirements, the diversity and inconsistency of these standards often lead companies to spend considerable time and resources to meet the expectations of different stakeholders. This not only increases the complexity of disclosure

but also affects the comparability and transparency of ESG information across companies. Additionally, managing the complexity of collecting, organizing, and disclosing ESG-related data is another significant challenge. ESG data encompasses multiple dimensions, including environmental, social, and governance factors, requiring cross-departmental collaboration to obtain accurate and timely data, which greatly increases the difficulty of disclosure. Finally, the high cost of ESG disclosure is a key issue, especially for small and medium-sized enterprises (SMEs). Large companies typically have more resources to handle ESG disclosure, allowing them to systematically manage and report relevant data. However, for SMEs, limited resources may cause the cost of disclosure to impose a considerable burden on their daily operations. Faced with increasingly stringent disclosure requirements and rising costs, some SMEs may choose not to disclose or only partially disclose ESG information, thereby widening the gap between them and larger companies in terms of sustainable development. In conclusion, despite significant progress in global ESG disclosure, notable differences remain across regions and industries. Companies face challenges such as inconsistent disclosure standards, complex data management, and high cost pressures when implementing ESG disclosure. In the future, developing unified standards, reducing disclosure costs, and optimizing disclosure mechanisms will be crucial to improving the quality of ESG information disclosure worldwide. Companies need to develop more systematic and effective ESG disclosure strategies, balancing short-term costs and long-term gains, to meet the increasingly complex market environment and societal expectations[8].

## **5. The Impact of ESG Information Disclosure on Corporate Risk**

ESG information disclosure, as a key measure of corporate performance in environmental, social, and governance aspects, can significantly influence risk management and risk levels. By disclosing both internal and external relevant information, companies can not only enhance transparency and trust but also proactively address external risk factors, thereby reducing potential operational and reputational risks. This section explores the specific impact of ESG information disclosure on corporate risk, focusing on operational risk, legal risk, reputational risk, and financial risk. First, operational risk is an unavoidable type of risk in daily business operations. Through ESG disclosure, companies can effectively identify and manage potential environmental and social risk factors. For example, in environmental management, companies can disclose their measures for energy consumption, waste management, and emissions control, demonstrating their efforts to mitigate environmental risks, thus reducing the likelihood of operational disruptions and losses due to environmental accidents or disasters. Furthermore, by disclosing social responsibility aspects, such as employee welfare and supply chain management, companies can reduce the risk of operational disruptions caused by labor disputes or supply chain instability. Overall, comprehensive ESG disclosure helps companies systematically manage various operational risks and enhances their resilience in uncertain market conditions. Second, legal risk is another important category of risk that companies face[9]. As global regulations on environmental protection and social responsibility become increasingly stringent, companies can avoid legal compliance risks to some extent by disclosing their ESG practices. For instance, in the context of stricter environmental, labor, and governance laws, companies that proactively disclose their compliance measures in areas such as pollution control, employee rights protection, and corporate governance can effectively reduce the risk of fines, lawsuits, or even business shutdowns due to regulatory violations. Additionally, ESG disclosure can serve as evidence of a company's fulfillment of legal obligations, helping to maintain positive relationships with regulatory bodies and further reducing the probability of compliance risks. Reputational risk refers to the risk a company faces in its public image among the general public, investors, and other stakeholders. ESG disclosure enhances corporate transparency and



fosters greater social trust, thereby reducing reputational risks arising from negative publicity or unethical behavior. For example, if a company regularly discloses its efforts in environmental protection and social responsibility, such as addressing climate change, reducing carbon emissions, and safeguarding employee rights, it can win the goodwill of the public and investors. Moreover, good ESG disclosure records can help companies preserve their brand image during crisis management, preventing long-term negative impacts on corporate development from crisis events. Finally, financial risk is closely related to a company's capital costs and financing channels. ESG information disclosure can significantly affect a company's performance in the capital markets and its financial risk levels. By disclosing ESG-related information, companies can demonstrate their commitment to sustainability, attracting long-term investors who prioritize social responsibility. This not only reduces a company's financing costs but also increases the diversity of its financing channels. Moreover, more and more investors and institutions are incorporating ESG factors into their investment decision-making frameworks. Companies with strong ESG performance can reduce liquidity risks and enhance their competitiveness in the capital markets. For example, companies with excellent ESG performance often receive higher credit ratings, which leads to lower loan interest rates and more investment opportunities, thereby reducing financial risks. In summary, ESG information disclosure, by improving transparency, enhancing trust, ensuring compliance, and attracting responsible investors, helps companies manage risks effectively at multiple levels. Through systematic and continuous ESG disclosure, companies can reduce operational, legal, reputational, and financial risks, while enhancing their risk resilience and competitive advantage in an increasingly complex market environment. Companies that incorporate ESG disclosure into their strategic management can build a more solid foundation for long-term development[10].

## **6. Case Study: Shell's ESG Information Disclosure and Risk Management**

In the global energy sector, Royal Dutch Shell, as a renowned international energy giant, faces immense environmental and social responsibility pressures. Particularly in areas such as climate change, carbon emissions, and the transition to sustainable energy, Shell has been subject to strict scrutiny from investors, government regulators, and the public. To address these challenges, Shell has adopted a systematic ESG (Environmental, Social, and Governance) information disclosure approach to demonstrate its efforts in environmental protection, social responsibility, and corporate governance. This strategy has helped Shell reduce operational, legal, and reputational risks while improving its financial performance. As one of the world's largest oil companies, Shell's operations contribute significantly to carbon emissions and environmental impact. To mitigate these risks, Shell provides detailed disclosures in its annual sustainability reports, including information on its carbon emissions, energy consumption, and environmental protection measures. For example, Shell has set clear carbon reduction targets and committed to achieving net-zero emissions by 2050. By publicly sharing this information, Shell not only highlights its commitment to environmental responsibility but also reduces potential legal and reputational risks associated with environmental issues through collaborations with governments, non-governmental organizations, and research institutions. Regarding social responsibility, Shell places equal importance on its labor relations and social impact. The company regularly discloses its initiatives related to employee welfare, workplace safety, and diversity. For instance, Shell emphasizes in its ESG reports the workplace safety training and employee health protection programs it has implemented globally, ensuring that its workers operate complex machinery and manage high-risk tasks in a safe environment. Additionally, Shell actively discloses its investments in community development and charitable projects, particularly in remote areas where the company operates. By supporting local education and infrastructure development, Shell strengthens its relationships with these communities. This

disclosure reduces the likelihood of social conflicts, lowers labor disputes, and further enhances the company's reputation. Shell also reduces its operational and financial risks through a strong corporate governance structure. In its ESG disclosures, Shell makes public its board structure, governance policies, and anti-corruption measures, ensuring that the company maintains high governance standards as it expands its global business. Shell's governance disclosures include details about board independence, gender diversity, and executive compensation mechanisms, showcasing transparency and fairness in its governance practices. By disclosing this information, Shell has attracted more institutional investors with long-term responsible investment strategies, stabilizing its stock price and funding channels. This has not only helped Shell remain competitive in the capital markets but has also significantly reduced its financial risks. Shell's ESG information disclosure has also directly impacted its financial performance. Due to its proactive disclosures on carbon reduction and sustainable energy development, more and more sustainable development funds and responsible investors have included Shell in their investment portfolios. This trend has provided Shell with greater financial support in the capital markets and lowered its financing costs. Moreover, Shell's strong ESG performance has increased its ability to secure policy support during the global energy transition, which not only reduces potential legal risks but also ensures the company's competitiveness in the future energy market. This case study illustrates that through systematic ESG information disclosure, Shell has effectively managed its environmental, social, and governance risks while enhancing its financial performance and capital market standing. Shell's experience demonstrates that robust ESG information disclosure can help companies build solid risk management systems in response to complex market environments and diverse stakeholder demands, ultimately achieving long-term sustainable development.

## 7. Conclusion

ESG information disclosure significantly impacts corporate risk management and financial performance. Through systematic and transparent disclosures, companies can effectively reduce operational, legal, reputational, and financial risks while enhancing their capital market performance. Additionally, good ESG disclosures help companies build investor trust and improve market competitiveness. However, companies still face challenges such as inconsistent standards, complex data collection, and high costs when implementing ESG disclosures. In the future, optimizing disclosure mechanisms and standardizing practices will be key to improving ESG management across global businesses, helping companies achieve higher-quality sustainable development.

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