

Summary of Paper: [Why is Corporate Virtue in the Eye of The Beholder? The Case of ESG Ratings](#)

What is this Study About?

ESG rating agencies often come to different conclusions about whether a given company is socially responsible. This study explores whether environmental, social, and governance (ESG) disclosure from companies alleviates or exacerbates this disagreement. To investigate this, the study utilizes data from major ESG rating agencies and analyzes the effect of ESG disclosure on the variability of ESG ratings assigned to firms.

What are the major findings of the study?

The research finds that when a company provides increased ESG disclosure, this appears to lead to greater disagreement among ESG rating agencies about how socially responsible the firm is. This is consistent with greater ESG disclosure giving ESG raters more information to disagree about. Further, the divergence in ESG ratings is particularly pronounced when firms disclose more about their ESG outcomes (e.g., workforce diversity) than their ESG policies (e.g., diversity policy), suggesting that outcomes are subject to more subjective interpretation than input metrics. Overall, these findings suggest that when companies provide more information about their ESG practices, it can exacerbate rather than resolve differences in ratings.

Why is the study important?

This study sheds light on the challenges of assessing corporate virtue, emphasizing the subjective nature of ESG assessments. By demonstrating that more ESG disclosure can lead to greater rating disagreement, the findings highlight a critical need for standardized norms and metrics in ESG reporting to reduce discrepancies and enhance the utility of ESG disclosure in investment decision-making.