DISSERTATION PROPOSAL

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"Essays on Voluntary Environmental, Social, and Governance (ESG) Disclosure"

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Environmental, Social, and Governance (ESG) investing has grown considerably in recent years. In response to the rising demand for ESG information, firms are rapidly adopting voluntary ESG disclosure practices, and the Securities and Exchange Commission (SEC) has proposed to mandate firms to climate change disclosure. Despite firms' increased efforts in ESG reporting, large-scale studies of the content and incentives of voluntary ESG disclosure are limited due to the lack of standardized and comparable ESG data. To bridge this research gap, I plan to study the antecedents (Chapter 2) and consequences (Chapter 1) of voluntary ESG disclosure in this dissertation.

In the first chapter, coauthored with Pierre Liang and Nicholas Muller, we examine the costs and benefits of voluntary ESG disclosure. Using a panel event study research design and hand-collected data on voluntary ESG disclosure of the S&P 500 companies, we find that ESG ratings are higher (benefits) and the number of EPA enforcement actions are greater (costs) for firms that voluntarily disclose quantitative information about their carbon emissions. The improved ESG ratings are partly driven by the increase in relevant company-level ESG measures. Results also suggest that EPA uses information disclosed in ESG reports to identify targets for inspections, allowing for a more efficient allocation of scarce enforcement resources. Our study offers evidence that voluntary ESG disclosure increases transparency in capital markets and efficiency in environmental enforcement.

In the second chapter, employing a plausibly exogenous shock to institutional investor attention, I propose to study the effect of institutional investor attention on voluntary ESG disclosure. As attention is a scarce cognitive resource, institutional investors need to efficiently allocate their attention among their portfolio firms. I hypothesize that investor attention has a positive impact on the content and sentiment of voluntary ESG disclosure and the relationship is stronger for dedicated institutions and quasi-indexers. After documenting how disclosure changes in response to investor attention, I examine the market reactions to voluntary ESG disclosure. Overall, this study aims to provide empirical evidence for investor attention as a largely unexplored determinant of voluntary ESG disclosure.