# Article information:

Why is Corporate Virtue in the Eye of the Beholder? The Case of ESG Ratings by Dane M. Christensen, George Serafeim, Anywhere (Siko) Sikochi :: SSRN
<https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3793804>

# Article summary:

1. There is substantial disagreement across rating agencies regarding what ESG rating to give to individual firms.

2. Greater ESG disclosure actually leads to greater ESG rating disagreement.

3. Greater ESG disagreement is associated with higher return volatility, larger absolute price movements, and a lower likelihood of issuing external financing.

# Article rating:

Appears moderately imbalanced: The article provides some useful information, but is missing several important points or pieces of evidence that would be required to present the discussed topics in a balanced and reliable way. You are encouraged to seek a more balanced perspective on the presented issues by exploring the provided research topics and looking at different information sources.

# Article analysis:

The article "Why is Corporate Virtue in the Eye of the Beholder? The Case of ESG Ratings" by Christensen, Serafeim, and Sikochi examines the disagreement among rating agencies regarding what rating to give to individual firms based on environmental, social, and governance (ESG) ratings. The authors predict and find that greater ESG disclosure leads to greater ESG rating disagreement. They also find that raters disagree more about ESG outcome metrics than input metrics (policies), and that disclosure appears to amplify disagreement more for outcomes.

The article provides valuable insights into the challenges of ESG ratings and highlights the need for standardization in this area. However, there are some potential biases and limitations in the study that should be considered.

Firstly, the study only focuses on publicly traded companies in the US, which limits its generalizability to other regions or types of companies. Additionally, the authors do not consider differences in industry sectors or company size, which could impact ESG ratings.

Secondly, while the authors suggest that greater ESG disclosure leads to greater disagreement among rating agencies, they do not explore why this might be the case. It is possible that companies with higher levels of disclosure may have more complex operations or face more significant sustainability challenges, leading to greater variation in ratings.

Thirdly, while the authors suggest that greater ESG disagreement is associated with higher return volatility and larger absolute price movements, they do not provide evidence for causality. It is possible that other factors could be driving both higher disagreement and market volatility.

Finally, while the article highlights some potential risks associated with ESG ratings (such as increased volatility), it does not explore potential benefits such as improved corporate transparency or increased investor interest in sustainable investments.

In conclusion, while "Why is Corporate Virtue in the Eye of the Beholder? The Case of ESG Ratings" provides valuable insights into challenges associated with ESG ratings, it is important to consider potential biases and limitations in the study. Further research is needed to fully understand the factors driving ESG rating disagreement and its impact on financial markets.

# Topics for further research:

* Factors driving ESG rating disagreement in different industries and regions
* Impact of company size on ESG ratings and disagreement
* Relationship between ESG disclosure and sustainability challenges
* Potential benefits of ESG ratings for corporate transparency and investor interest
* Causality between ESG disagreement and market volatility
* Standardization efforts in ESG ratings and their effectiveness

# Report location:

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