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## **SUSTAINABILITY REPORTING AND ITS EFFECT ON FIRM VALUATION**

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### **ABSTRACT**

The emergence of sustainability reporting has changed the corporate disclosure environment, particularly in the light of Environmental, Social, and Governance (ESG) factors. This paper examines the trends, models and the effects of sustainability reporting on corporate performance and market valuation. The research uses firm data in different sectors to state that high-quality sustainability reporting is more common among firms with higher Price-to- Earnings (P/E) ratios, indicating a positive relationship between transparent ESG reporting and market valuation. The trend toward consistent and comparable sustainability metrics is further enhanced by the adoption of global standards, such as the Global Reporting Initiative (GRI). Nevertheless, a significant fraction of companies do not have standardized or universal reporting. The results of this study support the strategic importance of sustainability reporting as a means of increasing transparency as well as the trust and corporate value investors place in it in the long-term. The report promotes better regulatory encouragement and industry-wide dedication to obtain more standard and meaningful ESG reports.

**KEYWORDS:** Sustainability Reporting, ESG, Corporate Transparency, Market Valuation, Price- to- Earnings Ratio, Global Reporting Initiative (GRI), Corporate Governance.

### **1. INTRODUCTION**

Corporate sustainability has become one of the key pillars of formulating business plans and affecting the way investors behave in recent years. This heightened awareness of climate change, social inequality, and corporate responsibility in the world has resulted in paradigm shift in the way firms operate and how they are to report their performance. This change has put Environmental, Social, and Governance (ESG) factors at the top of financial and strategic decision-making.

The adoption of sustainability reporting is also rising as a result of the pressure being exerted by international regulatory frameworks, investor groups and sustainability-oriented rating agencies. Included among the frameworks that guide companies in aligning their non-financial disclosures with international best practice are the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB) and Integrated Reporting (<IR>). In the case of publicly traded firms, this

kind of transparency is increasingly becoming a necessity in terms of competitiveness in the market, as well as, interest of institutional investors.

Empirical findings indicate that detailed and reliable sustainability disclosures are capable of increasing investor confidence, reducing information asymmetry and corporate resilience through the identification and management of long-term risks. All these benefits directly affect the performance of a firm in the capital market, especially in stock valuation, cost of capital, and sustainable finance. Nevertheless, the effect of sustainability reporting on firm valuation is not systematic; it depends on a lot of contextual variables such as the size of the firm, industry dynamics, regional regulations, corporate governance operations and the quality and credibility of the reported information.

### **1.1.The Evolution and Importance of Sustainability Reporting**

Sustainability reporting has come a long way since mere corporate social responsibility (CSR) reporting statements to more advanced standardized models that allow transparency and accountability. Early CSR work was mostly philanthropic and the disclosures were minimal and not very comparable. Nevertheless, the increasing trend in global interest in environmental degradation, social inequality, and corporate governance has led to an increased demand of structured, credible and comparable sustainability disclosures. As a reaction, the most prominent reporting frameworks (Global Reporting Initiative (GRI), Integrated Reporting (<IR>), and Sustainability Accounting Standards Board (SASB)) have appeared.

These frameworks give detailed guidelines on how organizations should share material environmental, social, and governance (ESG) information, which demonstrates how sustainability is integrated into the corporate strategy, operations, risk management, and long-term value creation. Investors have become proactive in incorporating the ESG data into the financial analysis and valuation models and are using it to assess the ethical behavior of a company, its strength, and its exposure to risk.

### **1.2.Objectives of the Study**

The primary aim of this research is to investigate the impact of sustainability reporting on firm valuation. The specific objectives are:

1. To explore the extent and nature of sustainability disclosures among listed companies.
2. To assess the relationship between sustainability reporting practices and firm valuation metrics such as Tobin's Q, Price-to-Earnings ratio, and Market Capitalization.
3. To evaluate whether the quality and assurance of sustainability reports influence investor perception and market response.
4. To identify sectoral and regional variations in the effect of sustainability reporting on firm valuation.

## **2. REVIEW OF LITERATURE**

Buallay (2019) carried out a critical examination to investigate the dual role of sustainability reporting in terms of its effect on the cost structures as well as the value creation of companies. The study was done in a quantitative manner where the data used on listed companies was evaluated to evaluate the impacts of the sustainability disclosures on financial performance. They discovered that in addition to the extra cost that the sustainability reporting entailed, which was attributed largely to requirements of specialized reporting systems, compliance mechanisms, and third-party audits, it also brought a substantial increase in firm value in the long run. This was accredited to enhanced transparency, stakeholder trust and consistency with long term strategic objectives.

Nguyen (2020) developed this research stream by conducting an empirical study of the effect of sustainability reporting on firm value in a variety of sectors and industries. The study provided evidence that the depth of sustainability reporting had a very strong and statistically significant positive relationship with market valuation of firms using a cross-sectional dataset and multiple regression models. As Nguyen pointed out, companies that disclosed quality

environmental, social and governance (ESG) information appealed to socially responsible investors and were in a stronger position regarding risk management and stakeholder engagement. Moreover, the researchers also pointed out that sustainability reporting served as a signaling tool, which differentiated companies in a more competitive and environmental- friendly market. Therefore, it indicated that sustainability reporting was not only a compliance exercise but a value creation tool.

Ioannou and Serafeim (2019) concentrated on the consequences of compulsory sustainability reporting rules. Their analysis of firms in jurisdictions with and without mandatory disclosure requirements revealed that mandatory sustainability reporting resulted in more consistent and of higher quality disclosures. The analysis indicated that the firms with regulatory requirements exhibited substantial improvements in the environmental and social performance, internal governance practices, and stakeholder accountability. The authors also observed that the existence of mandatory frameworks provided a level playing field that minimized information asymmetry as investors became better informed. Further, their results indicated that institutionalization of sustainability reporting might be a driver to organizational change and ethical business practices.

Shad et al. (2019) viewed sustainability reporting through the lens of risk management, in which the authors presented a conceptual framework that combined sustainability disclosures with Enterprise Risk Management (ERM) systems. The paper by them has demonstrated the relevance of integrating sustainability into the strategic risk management activities of the firm to detect the emerging environmental and social risks. Aligning the reporting practices with ERM, companies might create

proactive measures to counter the possible threats, increase compliance and create resilience. It was also noted that the integration enhanced transparency and decision making thus resulting to better business performance. The authors assumed that this practice would enable organizations to move a step forward in terms of management of sustainability, becoming proactive rather than reactive, leading to innovation and sustainability in the long run.

### **3. RESEARCH METHODOLOGY**

The research design used in this study is descriptive and only secondary data will be used, which will be obtained through the company sustainability reports, annual financial statements, and known reporting frameworks. The methodology provides the sampling procedure, sample size, data collection points, and the methods of analysis.

#### **3.1. Research Design**

In this study, the descriptive research design is adopted to explore the trends and the level of sustainability reporting among the chosen firms and how these reports relate to the valuation of the firms. The descriptive approach enables the logical examination of available data to determine trends, relationships and reporting behavior in industries.

#### **3.2. Sampling Technique**

This study uses a purposive sampling technique, selecting companies based on their relevance to the research objectives. Firms were chosen specifically because they publish sustainability reports and are listed on recognized stock exchanges. This method ensures the inclusion of companies with available ESG and financial data, allowing for effective analysis of the relationship between sustainability reporting and firm valuation.

#### **3.3. Sample Size**

The sample comprises 50 companies in five major industries: Manufacturing, Financial Services, Energy & Utilities, Information Technology and Consumer Goods. These companies were chosen so as to have sectoral diversity and have enough representation so as to be able to compare. The size was found sufficient to carry out frequency and percentage analysis of secondary data.

#### **3.4. Tools for Data Analysis**

Simple descriptive statistical measures like frequency distribution and percent analysis were used to analyse the data. Such instruments aided in introducing the frequency of reporting activities and determining relations between the quality of sustainability reporting and valuation of firms. The results of the analysis were given in table form to make it easier to understand and interpret.

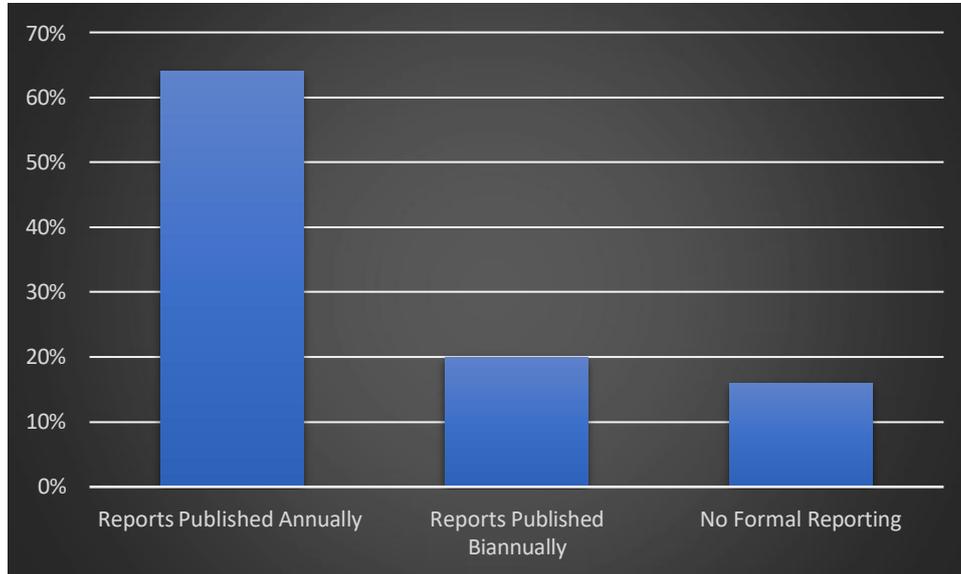
#### **4. RESULT AND DISCUSSION**

This section provides descriptive analysis of secondary data on publicly available sustainability reports and annual financial statements of the chosen listed companies of different sectors. The frequency and percentage distribution are employed to find patterns in the sustainability reporting practice and its association with firm valuation measures in the analysis. The tables below provide a summary of the allocation of companies according to the main sustainability reporting parameters and firm valuation indicators.

**Table 1: Frequency of Sustainability Report Adoption by Companies (N = 50)**

| <b>Sustainability Reporting Status</b> | <b>Frequency</b> | <b>Percentage (%)</b> |
|--|------------------|-----------------------|
| Reports Published Annually             | 32               | 64%                   |
| Reports Published Biannually           | 10               | 20%                   |
| No Formal Reporting                    | 8                | 16%                   |
| <b>Total</b>                           | <b>50</b>        | <b>100%</b>           |

Table 1 reveals that 64 % of the companies release sustainability reports on an annual basis, which means that the companies are significantly committed to regular ESG reporting. The rest 20 % report twice per year, and 16 % do not observe any reporting practice. This implies that even though the majority of firms appreciate the significance of sustainability reporting, a significant proportion of firms do not have formal disclosure systems.



**Figure 1: Graphical presentation of percentage of Sustainability Report Adoption by Companies**

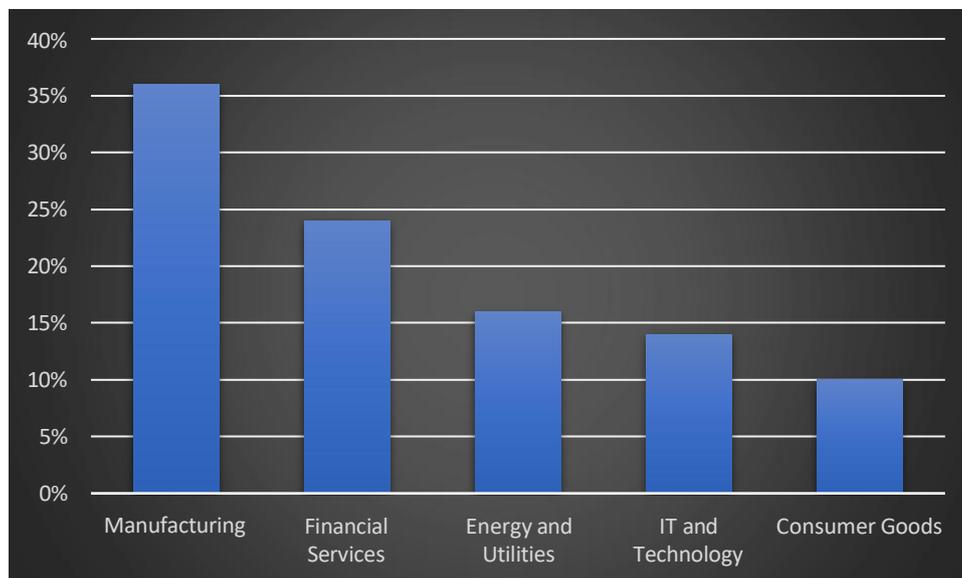
Figure 1 reveals that the percentage of firms (more than 60%) discloses sustainability reports on an annual basis, which indicates an excellent attitude toward frequent ESG reporting. Approximately one out of every five reports twice a year, whereas the remaining percentage (approximately 15) lacks any formal reporting tradition. This shows that there is a positive movement towards uniform sustainability reports yet there are still firms which lack organized disclosure.

**Table 2: Sector-wise Distribution of Sustainability Reporting Practices**

| Sector               | Number of Companies | Percentage (%) |
|----------------------|---------------------|----------------|
| Manufacturing        | 18                  | 36%            |
| Financial Services   | 12                  | 24%            |
| Energy and Utilities | 8                   | 16%            |

|                   |    |      |
|-------------------|----|------|
| IT and Technology | 7  | 14%  |
| Consumer Goods    | 5  | 10%  |
| Total             | 50 | 100% |

Table 2 indicates that manufacturing industry has the highest percentage of sustainability reporting, which is 36 percent of the total sample followed by financial services with 24 percent of the total sample. The energy and utilities sector accounts to 16 percent and IT and technology to 14 percent and consumer goods to 10 percent. This allocation indicates that the industries that are more environmental-intensive or have more regulatory attention, e.g., manufacturing and energy, are more involved in sustainability reporting.



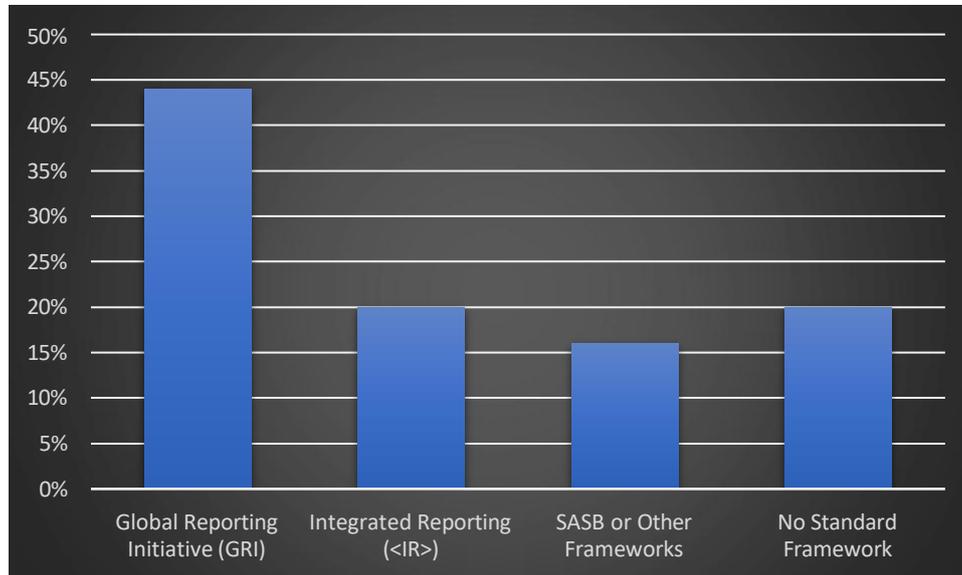
**Figure 2: Graphical presentation of percentage of Sector-wise Distribution of Sustainability Reporting Practices**

Figure 2 shows the sector-wise split of companies of sustainability reporting. The largest share of the manufacturing sector comprises more than 35 % of the total sample and financial services comprise about 24 % of the total sample. The energy and utilities, IT and technology and consumer goods industries come next with a progressively smaller involvement.

**Table 3: Companies Using Standardized Frameworks for Reporting**

| <b>Reporting Framework Used</b>          | <b>Frequency</b> | <b>Percentage (%)</b> |
|--|------------------|-----------------------|
| <b>Global Reporting Initiative (GRI)</b> | <b>22</b>        | <b>44%</b>            |
| <b>Integrated Reporting (&lt;IR&gt;)</b> | <b>10</b>        | <b>20%</b>            |
| <b>SASB or Other Frameworks</b>          | <b>8</b>         | <b>16%</b>            |
| <b>No Standard Framework</b>             | <b>10</b>        | <b>20%</b>            |
| <b>Total</b>                             | <b>50</b>        | <b>100%</b>           |

Table 3 means that the most popular one is the Global Reporting Initiative (GRI) that is used by 44 % of the companies. 20 % follow Integrated Reporting (<IR>) and 16 % follow SASB or other frameworks. It is interesting to note that 20 % of the companies do not operate under any standardized framework and this could affect the consistency and comparability of the disclosures. This underscores the increasing yet inconsistent use of structured sustainability reporting standards among companies.



**Figure 3: Graphical presentation of percentage of Companies Using Standardized Frameworks for Reporting**

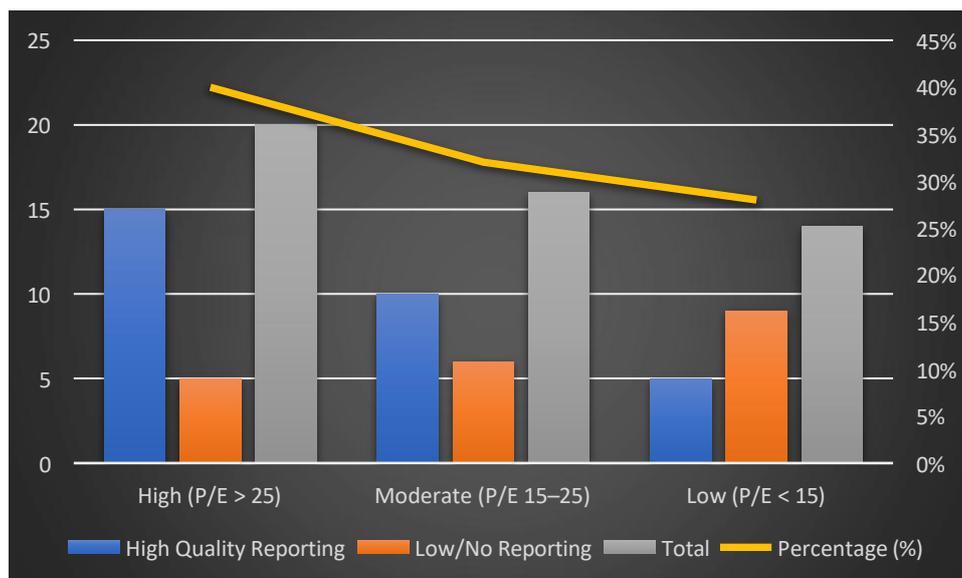
Figure 3 demonstrates how various sustainability reporting frameworks are used by the chosen companies. The most popular one is the Global Reporting Initiative (GRI) that is used in more than 40 % of companies, which shows that it is accepted worldwide and contains a detailed framework. Smaller segments use Integrated Reporting (<IR>) and SASB or other frameworks, and about 20 % of companies do not use any standard framework.

**Table 4: Relationship Between Reporting Quality and Market Valuation Level**

| Market Valuation Level (P/E Ratio) | High Quality Reporting | Low/No Reporting | Total | Percentage (%) |
|------------------------------------|------------------------|------------------|-------|----------------|
| High (P/E > 25)                    | 15                     | 5                | 20    | 40%            |
| Moderate (P/E 15–25)               | 10                     | 6                | 16    | 32%            |

|                |           |           |           |             |
|----------------|-----------|-----------|-----------|-------------|
| Low (P/E < 15) | 5         | 9         | 14        | 28%         |
| <b>Total</b>   | <b>30</b> | <b>20</b> | <b>50</b> | <b>100%</b> |

Table 4 demonstrates a positive dependence between the quality of sustainability reporting and the market valuation. Of companies having high P/E ratios (>25), 75 % (15 out of 20) exhibit high-quality reporting. On the contrary, businesses that have low P/E ratio (<15) mainly belong to low or no reporting. It implies that companies that disclose their sustainability in a better manner are more likely to report higher market valuations, perhaps because investors feel more confident about their sustainability and see more long-term worth in them.



**Figure 4: Graphical presentation of Relationship Between Reporting Quality and Market Valuation Level**

Figure 4 shows the correlation between the quality of sustainability reporting and firm valuation on the basis of P/E ratio. In the case of high valuation (P/E > 25), most of the firms have high-quality reporting and few of them belong to the low/no reporting category. The valuation gets lower and consequently the number of firms with lower or no sustainability reporting is growing, especially in the low valuation group (P/E < 15).

## 5. CONCLUSION

This paper brings to the fore the increasing importance of sustainability reporting in determining the corporate transparency and the valuation of firms. The results show that most of the businesses, especially those operating in high-impact industries, including manufacturing and financial services, are embracing regular sustainability reporting- mostly on annual basis. Reporting on ESG using standardized frameworks such as the Global Reporting Initiative (GRI) is another indication of a move towards standardized, comparable ESG disclosures. Notably, the evidence indicates that there is a positive relationship between quality of sustainability reporting and increased market valuation as the high-quality disclosures are more common among the companies with a high P/E ratio. The findings confirm the belief that strong sustainability has the effect of boosting investor confidence, decreasing information asymmetry, and leading to positive market perception. Nonetheless, with the existence of corporations that are yet to have formal or standardized reporting, there remains a necessity to have a wider regulatory direction and industry dedication. On the whole, this study confirms the notion that sustainability reporting is not only a compliance exercise but a strategic instrument that could be used to generate long-term value and competitiveness in the capital markets.

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