The Effect of Environmental, Social, and Governance (ESG) Disclosure on Firms' Credit Rating and Capital Structure

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Abstract : This paper explores the impact of the extent of a company's environmental, social, and governance (ESG) disclosure on credit rating and capital structure. The analysis is based on a sample of 202 firms from the 350 FTSE firms over the period of 2008-2013. ESG disclosure score is measured using Proprietary Bloomberg score based on the extent of a company's Environmental, Social, and Governance (ESG) disclosure. The credit rating is measured by The QuiScore, which is a measure of the likelihood that a company will become bankrupt in the twelve months following the date of calculation. The Capital Structure is measured by long term debt ratio. Two hypotheses are test using panel data regression. The results suggested that the higher degree of ESG disclosure leads to better credit rating. There is significant negative relationship between ESG disclosure and the long term debit percentage. The paper includes implications for the transparency which is resulting of the ESG disclosure could support the Monitoring Function. The monitoring role of disclosure is the increasing in the transparency of the credit rating agencies, also it could affect on managers' actions. This study provides empirical evidence on the material of ESG disclosure on credit ratings changes and the firms' capital decision making.

Keywords : capital structure, credit rating agencies, ESG disclosure, panel data regression
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