

Walking the talk? ESG disclosure and managerial discretion

Wendi Yi, NHH, Department of Business and Management Science

Abstract

In this paper we look at how steel producers implement sustainability commitments from their disclosures. We construct a new panel dataset on steel plants' inputs, outputs, innovation and emissions to examine whether in the short run firms prove commitment with operational adjustments to reduce emissions, and whether in the long run steel companies steer towards green innovation activities. First, we observe that a large fraction of firms produce Environmental, Social, Governance (ESG) statements.

We examine the link between ESG statements and emissions, finding no correlation. Second, we distinguish between operational flexibility and technological change as two distinct pathways through which ESG commitments can translate into emissions reductions. We find that firms have exhausted the possibilities for marginal adjustments in the technological process, and only a small fraction engage in innovation activities. We find no evidence of incentive contracting. Overall, while steel manufacturers make public environmental commitments, very few of them take practical steps towards emission reduction.