



ESG Rating Disagreement and Its Relationship with Financial Risk and Firm Value: Evidence from the United Kingdom and the United States

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Article Info:

Article history:

Received: July 30, 2026

Revised: September 11, 2026

Accepted: September 18, 2026

Available Online: October 07, 2026

Keywords:

ESG Rating Disagreement;
Financial Risk;
Firm Value;
Signalling Theory;
Systematic Risk



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Abstract

Background: The growing prominence of sustainable investing has amplified reliance on Environmental, Social, and Governance (ESG) ratings for guiding investment choices. Nevertheless, assessments of the same firm frequently vary among rating providers, generating uncertainty and informational imbalances.

Objective: This study investigates the association between ESG rating disagreement, financial risk, and firm value, addressing the scarcity of evidence regarding how divergence in ratings concurrently relates to market-based risk indicators and corporate valuation.

Methods: The analysis encompasses 60 firms listed in the United Kingdom and the United States over the 2019–2023 period. ESG scores obtained from Refinitiv Eikon, Bloomberg, and S&P Global are standardized through percentile rank transformation, and disagreement is quantified using the standard deviation of these standardized scores. Panel data regression models are applied to assess firm value proxied by Tobin's Q, total risk proxied by stock return volatility, and systematic risk proxied by market beta.

Results: ESG rating disagreement exhibits a positive and statistically significant relationship with both firm value and systematic risk, whereas its link with total risk lacks statistical significance. These outcomes suggest that heightened rating divergence may correspond to elevated corporate valuation and increased sensitivity to broad market fluctuations, without necessarily amplifying overall stock return volatility.

Conclusion: The findings reveal ESG rating disagreement does not uniformly correspond to unfavorable market outcomes. The results lend support to the relevance of signalling and information asymmetry frameworks, offering practical insights for investors who consult multiple ESG rating sources and for corporate managers striving toward more coherent ESG communication.

To cite this article: Yulianingsih, M. (2026). ESG Rating Disagreement and Its Relationship with Financial Risk and Firm Value: Evidence from the United Kingdom and the United States. *Journal of Business, Social and Technology*, 7(4), 2262-2273. <https://doi.org/10.59261/bustechno.v7i4.816>

INTRODUCTION

The worldwide expansion of sustainable investing has elevated Environmental, Social, and Governance (ESG) considerations to a prominent position in investment decision-making. As reported by the United Nations Conference on Trade and Development (Development, 2021; Raimi & Bamiro, 2026), assets under sustainable fund management have risen substantially across the globe, with Europe and the United States consistently acting as the principal catalysts of this growth. As ESG integration has become standard practice, investors increasingly depend on ESG ratings issued by third-party agencies to assess corporate sustainability performance and

guide portfolio allocation. However, a fundamental challenge has surfaced: ESG ratings assigned to the same firm frequently exhibit substantial variation across different rating providers. The International Organization of Securities Commissions (IOSCO) published a report in 2021 evaluating 58 rating agencies and data providers, uncovering notable inconsistencies in ESG rating data across the industry (Wang et al., 2024). Various ESG agencies utilize distinct methodologies, analytical frameworks, and weighting schemes (Berg et al., 2022), giving rise to a phenomenon termed ESG rating disagreement, which captures the divergent evaluations of different rating agencies concerning a firm's ESG risks and opportunities. This disagreement carries significant implications because the absence of consensus on what defines strong ESG performance may cause market participants to be misguided by ESG ratings (Christensen et al., 2022). ESG rating disagreement introduces uncertainty and inconsistency into financial markets, influencing investment decisions, corporate financing, reputation, and the evolution of ESG-related policies and regulatory frameworks. Moreover, scholars investigating the link between a firm's ESG profile and its financial performance arrive at varying conclusions depending on the ESG data source employed (Giese et al., 2019; Hauch, 2025). Consequently, systematic inquiry is warranted into how ESG rating disagreement relates to different aspects of corporate performance.

A number of earlier studies have explored the consequences of ESG rating disagreement, yet significant gaps persist. Serafeim and Yoon, (2023). and Wang et al. (2024) show that ESG rating disagreement is inversely related to stock returns (Serafeim & Yoon, 2023; Tan & Pan, 2023; Wang et al., 2024). Guo et al. (2024) investigate the moderating influence of ESG disagreement on external financing, demonstrating that only "high ESG ratings accompanied by agreement" can facilitate firms in achieving "cost reduction and volume expansion" in debt financing, whereas "high ESG ratings lacking agreement" conversely arouse suspicions of misleading disclosure, as ESG information suggestive of "greenwashing" leads to ineffective or even adverse effects on corporate debt financing (Guo et al., 2024). Tan and Pan (2023) additionally report that ESG rating disagreement is positively linked to stock return volatility. Nonetheless, these studies predominantly concentrate on stock returns and financing outcomes, leaving a gap in comprehending how ESG rating disagreement is associated with broader financial risk indicators and firm valuation. Furthermore, the majority of prior research has been restricted to single-country contexts or has utilized only two rating providers, constraining the generalizability of their conclusions (Avramov et al., 2022).

Hanggraeni (2023) identifies three principal challenges in ESG score measurement. First, the absence of standardization regarding how ESG factors are defined and assigned weights generates difficulties in cross-comparing ratings and transmits conflicting signals to investors and firms. Second, insufficient transparency in the computation of ratings undermines the ability to evaluate their validity. Finally, ESG ratings frequently rely on self-reported data and assertions that may contain biases, inaccuracies, or lack substantiation.

Berg et al. (2022) note in their study that Chatterji et al. (2016) made a foundational contribution by differentiating two critical dimensions: first, the manner in which ESG assessors conceptualize what they intend to measure, and second, the approach they employ to measure it. Building on this distinction, Berg deepened the analysis to elucidate the sources of ESG rating disagreement, as outlined below: (1) Berg decomposes divergence into scope and weight components reflecting the object of measurement as well as the measurement approach itself. Variations in measurement techniques constitute the primary source of ESG rating disagreement, wherein different assessors hold divergent views regarding which categories carry the greatest importance in ESG evaluation. ESG rating disagreement extends beyond definitional differences to encompass fundamental disputes over the underlying data. Measurement discrepancies become particularly problematic when one accepts the premise that ESG ratings ought to rest upon objective and verifiable observations. (2) At the firm level, two distinct ESG rating approaches yield different evaluations. Measurement divergence proves most pronounced in the domains of Climate Risk Management, Product Safety, Corporate Governance, Corruption, and Environmental Management. (3) A rater effect exists whereby assessments produced by evaluators exhibit cross-category correlation, such that when a rating agency assigns a favorable score in one category, it tends to assign similarly favorable scores in other categories. The rater

effect demonstrates that measurement discrepancies are not merely random noise but rather systematic patterns that shape how firms are evaluated.

Cakici and Topyan (2014) and Feldman et al. (2026) notes that total risk encompasses both market risk and firm-specific risk, captured by total volatility or standard deviation, which holds significance for scholars seeking to analyze these components individually or in combination. Cakici and Topyan (2014) and Feldman et al. (2026), observes that a low beta does not necessarily imply low total volatility; likewise, elevated total volatility does not automatically translate into a high beta, since the relationship incorporates both relative volatility and correlation. Put differently, a stock can exhibit high volatility alongside low correlation, producing a low beta.

As described by the Corporate Finance Institute, systematic risk represents the component of total risk attributable to factors beyond the control of any particular individual or firm and arises from external influences, including economic, political, and social conditions. Every investment or security carries systematic risk, rendering it a form of risk that cannot be eliminated through portfolio diversification across a large number of securities.

Systematic risk is observable through the responsiveness of a security's return to the aggregate market return. This responsiveness can be quantified via the β (beta) coefficient. The β coefficient is derived by regressing a security's return on the market return.

Firm value is conceptualized as market value, given that firm value can optimally enhance shareholder wealth when the stock market price of the firm rises. Furthermore, firm value reflects the market's appraisal of a firm's existing assets (Atan et al., 2018; Lee & Isa, 2023). The principal proxy for value is Tobin's Q, initially introduced by Tobin (1969) and Sabarwal (2025) subsequently adopted extensively in the literature for computing firm value (Li et al., 2018; Rohendi et al., 2024). James Tobin formulated this theory to gauge firm value. The fundamental premise of the theory concerns how monetary policy can shape the economy through its impact on equity. Tobin defines Q as the ratio of the firm's market value to the replacement cost of capital. This implies that a higher Q value signifies greater firm value relative to firms with lower Q values (Atan et al., 2018; Lee & Isa, 2023).

As referenced from the Corporate Finance Institute, the Q Ratio or Tobin's Q Ratio denotes the proportion between the market value of physical assets and their replacement cost. This ratio was devised by James Tobin, a Nobel Prize recipient in economics. Tobin posited that the aggregate market value of all listed firms should approximate their replacement cost. This ratio is applicable for evaluating an individual firm as well as the stock market in its entirety.

Signalling theory is grounded in an extensive body of scholarly work within economic contract theory, centering on information asymmetry among various entities, whether individuals or organizations. More precisely, signalling theory addresses how an entity, be it an agent or insider, can undertake actions that communicate underlying quality to mitigate information asymmetry. At its core, signalling theory articulates propositions regarding strategies for action within contexts characterized by varying costs and benefits under differing degrees of opacity or transparency, applicable to both the signaler and the signal recipient. Signalling theory posits that firms furnish information that can be utilized by individuals or constituent groups endeavoring to develop impressions about the firm, its values, and its overarching future trajectory (Moratis, 2018; Nguyen, 2025).

As articulated by in Hanggraeni (2023), signals may be construed as cues directed at external parties (investors), with these signals having been crafted by the firm itself (managers). All forms of signals emitted by the firm are intended to convey meaning such that a shift in the market's or external parties' assessment of the firm is anticipated. Accordingly, the signals to be communicated by the firm must possess informational power sufficient to induce changes in the external public's perception of the firm's valuation.

Non-financial information disclosure, such as ESG disclosure, can likewise be regarded as a signal that is anticipated to be received by other parties capable of influencing decision-making. A firm's disclosure of non-financial information pertaining to environmental, social, and governance matters can serve as a positive signal for investors. When investors perceive such positive signals, the firm achieves a favorable valuation as investors, through heightened stock demand, drive stock prices upward, thereby elevating firm value (Hanggraeni, 2023).

Bergh et al. (2019) elucidate that, drawing on Wei et al. (2025), information asymmetry refers to a situation in which one party within a relationship possesses superior or more extensive information relative to the other party. They further note that information asymmetry serves as a foundational concept in management scholarship, spanning strategic management, corporate social responsibility, human resource management, organizational behavior, organizational theory, and entrepreneurship. The challenges and opportunities engendered by information asymmetry constitute essential components of numerous theories, among them agency theory, transaction cost economics, resource-based theory, institutional theory, resource dependence theory, and signalling theory.

Information asymmetry within corporate governance theory reveals that information possession varies among individuals engaged in the interchange between stakeholders and the firm, where individuals exhibit distinct behaviors and render different decisions that may influence firm performance (Akmal et al., 2022; Cristian et al., 2010; Norisnita et al., 2025).

This study addresses the identified gap by investigating the relationship between ESG rating disagreement and both firm value and financial risk, disaggregated into total risk (stock return volatility) and systematic risk (market beta). The originality of this research resides in three dimensions. First, it concurrently examines the link between ESG rating disagreement and firm valuation alongside two separate risk dimensions, offering a more holistic analysis than earlier studies focused on a single outcome variable. Second, it utilizes ESG ratings from three prominent providers (Refinitiv Eikon, Bloomberg, and S&P Global) rather than merely two, thereby encompassing a wider range of rating divergence. Third, it draws on a cross-country sample from the United Kingdom and the United States, two well-established ESG markets with sustainability scores of 22.08 and 21.70, respectively, according to the Morningstar Country Index Portfolio Sustainability Score Map for 2022. As indicated by (Development, 2021; Raimi & Bamiro, 2026), Europe and the United States have persistently served as principal drivers of the expansion in sustainable investment. Considering the shift in ESG disclosure from voluntary to mandatory frameworks, encompassing the Task Force on Climate-related Financial Disclosures (TCFD) and the European Union Non-Financial Reporting Directive (EU NFRD) enacted in 2015, together with the accelerated growth of global ESG Exchange-Traded Fund (ETF) investment beginning in 2019 Dorn, (2020) and Narula et al. (2025), this study spans the period from 2019 to 2023.

Accordingly, this study seeks to investigate the association between ESG rating disagreement and firm value, total risk, and systematic risk among firms listed in the United Kingdom and the United States. The results are anticipated to elucidate whether disagreement across ESG rating providers exhibits differential associations with corporate valuation and distinct aspects of financial risk, while furnishing pertinent evidence for investors relying on multiple ESG rating sources and corporate managers pursuing more consistent ESG communication.

METHOD

The sampling technique employed in this study is purposive sampling. The initial population encompasses all firms listed on the London Stock Exchange (LSE) in the United Kingdom and the New York Stock Exchange (NYSE) and NASDAQ in the United States. The UK, serving as a representative of Europe, and the United States were selected on the basis that UNCTAD data from Morningstar indicate Europe and the United States as the foremost drivers of the growth in sustainable funds worldwide, with both countries demonstrating elevated ESG maturity based on the Morningstar Country Index Portfolio Sustainability Score Map for 2022. The sample selection criteria are specified as follows: (1) firms must maintain continuous listing throughout the 2018–2023 period; (2) firms must possess ESG ratings from all three providers—Bloomberg, S&P Global, and Refinitiv Eikon—for the full study period; (3) firms must have complete financial data for all control variables; and (4) firms must not have experienced delisting, merger, or substantial restructuring during the study period. The application of these criteria produced a final sample of 30 firms from the UK and 30 firms from the United States, generating 300 firm-year observations across the five-year study period.

The temporal scope of this study spans from 2019 to 2023, taking into account the shift in ESG disclosure from voluntary to mandatory regimes following the introduction of the Task Force

on Climate-related Financial Disclosures (TCFD) and The European Union Non-Financial Reporting Directive (EU NFRD) in 2015, in addition to the rapid expansion of global ESG Exchange-Traded Fund (ETF) investment beginning in 2019 (Dorfleitner et al., 2015; Hauch, 2025).

Following Wang et al. (2024), the ESG rating disagreement measure employs the preceding time period, specifically $t-1$. A 1-year time lag is adopted because investors may be unable to observe ESG rating outcomes from third-party agencies within the current year, and the influence of ESG ratings may manifest with a temporal delay. Employing a one-year lag also serves to mitigate endogeneity concerns stemming from reverse causality (Guo et al., 2024). The purpose is to evaluate how ESG factors from the prior year constitute investors' present frame of reference, which subsequently shapes investor sentiment affecting the firm's current value and financial risk; hence, this study utilizes ESG rating data spanning 2018–2022.

The independent variable in this study is ESG rating disagreement, operationalized as the standard deviation of ESG scores sourced from three providers (Refinitiv Eikon, Bloomberg, and S&P Global) following adjustment through percentile rank normalization. The percentile rank adjustment is essential because different ESG rating providers employ distinct scoring scales and distributions; converting scores to percentile ranks ensures cross-provider comparability prior to computing the standard deviation (Berg et al., 2022). This methodology follows Wang et al. (2024) and is favored over alternative measures such as the range or coefficient of variation, given that the standard deviation captures the overall dispersion of ratings while exhibiting lower sensitivity to outliers relative to the range. The dependent variables comprise stock price volatility as a proxy for total risk, market beta as a proxy for systematic risk, and the Tobin's Q ratio as a proxy for firm value. The control variables encompass firm size (natural logarithm of total assets), leverage (total debt to total equity), market to book ratio, dividend yield, together with country, industry, and year fixed effects.

Panel data regression analysis was utilized to assess the statistical significance of the association between ESG rating disagreement and firm value and financial risk. To identify the most suitable panel data specification, three model selection tests were performed: the Chow test (for choosing between the Common Effect Model and the Fixed Effect Model), the Hausman test (for choosing between the Fixed Effect Model and the Random Effect Model), and the Lagrange Multiplier test (for confirming the choice between the Common Effect Model and the Random Effect Model). Furthermore, classical assumption diagnostics—encompassing multicollinearity, heteroscedasticity, and autocorrelation tests—were carried out to safeguard the reliability of the regression estimates. Robust standard errors were employed to address potential heteroscedasticity. The following regression models were specified:

Model 1: Effect of ESG rating disagreement on firm value:

$$TQ_{i,t} = \beta_0 + \beta_1 ESGDif_{i,t-1} + \beta_2 SIZE_{i,t} + \beta_3 LEV_{i,t} + \beta_4 MTB_{i,t} + \beta_5 DIV_{i,t} + \text{Country} + \text{Industry} + \text{Year} + \varepsilon_{i,t} \quad (1)$$

Model 2: Effect of ESG rating disagreement on total risk:

$$RTot_{i,t} = \beta_0 + \beta_1 ESGDif_{i,t-1} + \beta_2 SIZE_{i,t} + \beta_3 LEV_{i,t} + \beta_4 MTB_{i,t} + \beta_5 DIV_{i,t} + \text{Country} + \text{Industry} + \text{Year} + \varepsilon_{i,t} \quad (2)$$

Model 3: Effect of ESG rating disagreement on systematic risk:

$$R_{Sys}_{i,t} = \beta_0 + \beta_1 ESGDif_{i,t-1} + \beta_2 SIZE_{i,t} + \beta_3 LEV_{i,t} + \beta_4 MTB_{i,t} + \beta_5 DIV_{i,t} + \text{Country} + \text{Industry} + \text{Year} + \varepsilon_{i,t} \quad (3)$$

Note:

Dependent Variables

$TQ_{i,t}$ = Tobin's Q ratio, as a proxy for firm value of company i in period t

$RTot_{i,t}$ = stock price volatility, used as a proxy for total risk of company i in period t .

$R_{Sys}_{i,t}$ = market beta, used as a proxy for systematic risk of company i in period t .

Independent Variable

$ESGDif_{i,t-1}$ = standard deviation of percentile-ranked ESG scores from Refinitiv Eikon, Bloomberg, and S&P Global for company i in period $t-1$.

Control Variables

$SIZE_{i,t}$ = firm size, measured as the natural logarithm of total assets of company i in period t .

$LEV_{i,t}$ = Leverage of company i in period t

$MTB_{i,t}$ = Market to Book ratio of company i in period t

$DIV_{i,t}$ = Dividend Yield of company i in period t

β_0 = Constant

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = Regression coefficients

ε = Error

RESULTS AND DISCUSSION

The sample comprises 30 firms listed in the United Kingdom and 30 firms listed in the United States. ESG rating data span the 2018–2022 period to accommodate the one-year lag structure, while the dependent and control variables span the 2019–2023 period. Employing a balanced panel over five years, the study encompasses 300 firm-year observations. The descriptive statistics of the research variables are presented in Table 1.

Table 1*Descriptive Statistics of Research Variables*

A. Overall Sample									
	ESG Rating Disagreement	TOBIN'S Q	VOL	BETA	SIZE	DIV	LEV	MTB	
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MEAN	18.590	2.346	33.511	1.204	22.586	2.216	3.308	4.884	
MEDIAN	17.995	1.978	31.198	1.143	22.576	1.797	2.750	3.827	
MIN	3.207	0.611	17.959	0.496	20.239	0.126	1.245	0.238	
MAX	42.118	8.786	90.852	3.164	25.195	18.352	26.482	27.098	
Std. Dev	8.452	1.258	10.946	0.461	1.082	2.116	2.684	3.869	
No Observation	300	300	300	300	300	300	300	300	
B. United Kingdom									
	ESG Rating Disagreement	TOBIN'S Q	VOL	BETA	SIZE	DIV	LEV	MTB	
MEAN	16.803	2.017	34.690	1.240	22.252	3.035	3.376	3.842	
MEDIAN	15.993	1.637	32.313	1.061	22.219	2.250	2.635	2.589	
MIN	3.207	0.611	17.959	0.496	20.239	0.276	1.245	0.238	
MAX	38.632	6.813	90.852	3.164	24.462	18.352	26.482	16.996	
Std. Dev	8.097	1.132	12.095	0.585	1.069	2.582	3.218	3.301	
No Observation	150	150	150	150	150	150	150	150	
C. United States									
	ESG Rating Disagreement	TOBIN'S Q	VOL	BETA	SIZE	DIV	LEV	MTB	
MEAN	20.378	2.675	32.331	1.168	22.921	1.397	3.240	5.926	
MEDIAN	20.444	2.459	30.078	1.146	22.819	1.209	2.767	4.855	
MIN	3.900	1.055	20.774	0.547	20.445	0.126	1.306	1.080	
MAX	42.118	8.786	81.870	1.978	25.195	5.033	16.934	27.098	
Std. Dev	8.449	1.296	9.557	0.286	0.990	0.985	2.022	4.118	
No Observation	150	150	150	150	150	150	150	150	

Descriptive statistics reveal that the mean ESG rating disagreement among companies in the United Kingdom (16.803) is lower than that among companies in the United States (20.378).

This observation suggests that, within the sample and study period, ESG ratings from the three providers display reduced average dispersion for UK firms relative to US firms. However, given that this study does not specifically investigate the drivers of cross-country variation in ESG rating disagreement, this descriptive difference should not be construed as evidence of a regulatory effect.

The regression results indicate that ESG rating disagreement (ESGDif) exhibits a positive and statistically significant association with firm value (Tobin's Q) and systematic risk (BETA), as evidenced by positive coefficients in Models 1 and 3. Conversely, the association between ESG rating disagreement and stock price volatility (VOL) does not achieve statistical significance. Accordingly, within the sample of 60 firms from the United Kingdom and the United States over the 2019–2023 period, ESG rating disagreement is linked to elevated firm valuation and heightened market sensitivity, yet not to a statistically significant difference in total stock price volatility.

Table 2
Regression Test Results

	Variable Dependent:		
	TobinsQ Model 1 (1)	VOL Model 2 (2)	BETA Model 3 (3)
ESGDif	0.01** (0.01)	0.04 (0.06)	0.01*** (0.003)
SIZE	-0.17*** (0.05)	-0.90 (0.70)	-0.04 (0.04)
LEV	-0.16*** (0.02)	0.94*** (0.23)	0.06*** (0.01)
MTB	0.29*** (0.01)	-0.82*** (0.19)	-0.03*** (0.01)
DIV	-0.05** (0.02)	-0.06 (0.25)	0.0000 (0.01)
Country	0.07 (0.12)	1.49 (1.69)	0.13 (0.10)
Industry	YES	YES	YES
Year	YES	YES	YES
Constant	4.88*** (1.12)	47.31*** (16.29)	1.64* (0.91)
Observations	300	300	300
R2	0.73	0.55	0.31
Adjusted R2	0.71	0.52	0.25

Note : *p<0.1; **p<0.05; ***p<0.01

Source: RStudio Output, 2024

Discussion

The test results indicate that the country factor does not exert a statistically significant effect on the outcomes, whether regarding firm value, total risk, or systematic risk. This may stem from the resemblances between the UK and US markets with respect to ESG practices, investor conduct, and regulatory environments. Both the UK and the US maintain mature and highly sophisticated financial markets where investors progressively incorporate ESG considerations into their investment choices, notwithstanding that the UK possesses a more comprehensive and integrated regulatory framework propelled by government directives and institutional investor expectations, while the US depends more heavily on market-led initiatives and developing regulatory mandates. Investors in the UK and the US increasingly evaluate ESG factors, fostering a mature ESG environment that has given rise to ESG rating agencies headquartered in these countries, such as Bloomberg, S&P Global, Refinitiv Eikon, and others. Both the UK and the US maintain numerous regulations governing ESG practices and reporting, encompassing both voluntary and mandatory requirements. Several globally recognized ESG reporting standards,

including the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and the Task Force on Climate-related Financial Disclosure (TCFD), are commonly adopted in both the UK and the US.

The findings derived from the sample of firms in the UK and the United States demonstrate that ESG rating disagreement exerts a positive and statistically significant effect on firm value and systematic risk, yet does not significantly influence stock price volatility. The following provides a detailed discussion of the results for each regression model:

ESG Rating Disagreements and Firm Value

The analysis reveals that ESG rating disagreement across different rating agencies is positively associated with firm value. This outcome diverges from the research hypothesis and from earlier work by Kim and Koo (2023), which posited that, through the lens of information asymmetry, divergent ESG ratings diminish firm value.

The positive link between ESG rating disagreement and firm value may be understood through the belief-dispersion perspective. Xiao et al. (2023) contend that heightened disagreement can correspond to elevated stock prices when market valuations are predominantly shaped by optimistic investors. This reasoning aligns with Atmaz and Basak (2018) and Fang et al. (2024), who demonstrate that broader dispersion of beliefs can amplify investor optimism and contribute to higher stock prices, particularly in the presence of favorable information. Under such circumstances, pessimistic investors may exert a comparatively limited influence on market pricing, leading valuations to mirror relatively optimistic expectations (Xiao et al., 2023). Within the context of ESG ratings, greater disagreement may thus enable favorable assessments from specific rating providers to command greater attention from optimistic investors, contributing to elevated market valuations. This interpretation accords with the descriptive characteristics of the current sample, which exhibits a mean Tobin's Q of 2.346, although firm-level values differ across observations. Hence, the positive association documented in this study implies that ESG rating disagreement may coexist with higher firm value when divergent ESG assessments are construed more favorably by market participants.

The positive link between ESG rating disagreement and firm value can be comprehended through several market-specific circumstances. First, in established ESG markets such as the UK and the US, investors demonstrate heterogeneous ESG preferences, and rating disagreement generates opportunities for optimistic investors to selectively highlight favorable ratings. This aligns with the short-sale constraints hypothesis, wherein pessimistic investors holding the lowest valuations are unable or disinclined to trade, resulting in stock prices that predominantly mirror optimistic perspectives (Xiao et al., 2023). Second, firms exhibiting high rating dispersion frequently receive superior evaluations from certain agencies employing comprehensive assessment methodologies, while other agencies relying exclusively on publicly available information may assign lower scores. Sophisticated investors who discern these methodological distinctions may assign greater weight to the more thorough evaluations, thereby underpinning higher valuations. Third, the positive association may reflect a market sentiment phenomenon specific to the optimistic ESG investment climate observed during the 2019–2023 period, when sustainable fund inflows attained record levels (Development, 2021; Raimi & Bamiro, 2026).

ESG rating disagreement may also draw a broader array of investors possessing diverse ESG priorities and varying risk tolerances. ESG rating disagreement can further motivate firms to intensify their efforts to enhance ESG practices and disclosures in pursuit of more consistent ratings, thereby bolstering confidence and market value. Rising market value and perceived value can elevate a firm's market value relative to its asset replacement cost.

ESG Rating Disagreements and Total Risk

Based on the analysis of 60 listed firms from UK and US stock exchanges over the 2019–2023 period, ESG rating disagreement does not exhibit a statistically significant association with stock price volatility. This result differs from Kim and Koo (2023), who found that greater ESG rating disparity corresponds to heightened volatility and subsequent stock price declines. In the current study, however, the non-significant regression coefficient suggests that the empirical evidence is insufficient to establish an association between ESG rating disagreement and changes

in total risk within the observed sample.

The divergent results for total risk and systematic risk are not inherently contradictory, as beta and total volatility capture distinct dimensions of financial risk. ESG rating disagreement is significantly linked to systematic risk as measured by beta, while its association with total stock price volatility is not statistically significant. As Cakici and Topyan (2014) and Feldman et al. (2026) explain, a high or low beta does not automatically correspond to high or low total volatility, because total volatility incorporates both market-related and firm-specific variation. Consequently, the findings suggest that ESG rating disagreement may be differentially associated with systematic risk and total risk within the sample under examination.

ESG Rating Disagreements and Systematic Risk

In line with the formulated hypothesis and consistent with the findings of other studies, the results for model 3 in this study indicate that ESG rating disagreement exerts a significant and positive influence on systematic risk for firms in the UK and the United States. Research that corroborates this finding is the study by Brandon et al. (2021), Anselmi and Petrella (2025) and Zeng et al. (2025), which reveals that greater disagreement among ESG ratings corresponds to higher stock return volatility and elevated systematic risk (Beta), suggesting that rating discrepancies amplify risk perception.

ESG rating disagreement generates information asymmetry between investors and firms. When different rating agencies issue conflicting ESG scores, it becomes challenging for investors to accurately evaluate the actual ESG performance, consequently heightening uncertainty and risk perception among investors, which amplifies stock sensitivity to market movements and results in a higher CAPM beta.

The positive link between ESG rating disagreement and systematic risk is interpretable through the theoretical framework adopted in this study. From the vantage point of signalling theory, discrepancies among ESG ratings may produce inconsistent signals about a firm's sustainability performance, thereby intensifying uncertainty among market participants (Moratis, 2018; Nguyen, 2025). From the standpoint of information asymmetry, disagreement among rating providers may further complicate the ability of external investors to evaluate a firm's actual ESG performance in a consistent manner (Bergh et al., 2019; Wei et al., 2025). These theoretical perspectives are congruent with the empirical finding that greater ESG rating disagreement is associated with elevated systematic risk as measured by market beta. The findings can be directly linked to the theoretical framework employed in this study. Viewed through the lens of signalling theory (Moratis, 2018; Nguyen, 2025), ESG rating disagreement produces mixed signals to the market concerning a firm's sustainability practices. These inconsistent signals intensify uncertainty about the genuine quality of a firm's ESG performance, prompting investors to rely more substantially on broad market indicators rather than firm-specific ESG information. This accounts for the positive association with systematic risk (beta), as firms with conflicting ESG signals become more responsive to market-wide movements. From the perspective of information asymmetry theory (Bergh et al., 2019; Wei et al., 2025), ESG rating disagreement deepens the information gap between corporate insiders and external investors. When rating agencies disagree, investors encounter greater difficulty in evaluating the true ESG performance of the firm, increasing perceived uncertainty and risk. However, as elucidated through the optimism-dispersion framework (Xiao et al., 2023), this same information asymmetry can paradoxically sustain higher firm valuations when short-sale constraints impede pessimistic investors from fully reflecting their views in stock prices.

CONCLUSION

This study investigates the relationship between ESG rating disagreement and firm value, total risk, and systematic risk across 60 firms listed in the United Kingdom and the United States during 2019–2023. The results demonstrate that ESG rating disagreement is positively and significantly associated with firm value as measured by Tobin's Q and systematic risk as measured by market beta, while its association with total risk measured by stock price volatility lacks statistical significance. These findings suggest that disagreement among ESG rating providers is not uniformly linked to adverse financial outcomes. Rating divergence can coincide with elevated

firm valuation while simultaneously being associated with heightened sensitivity to market-wide movements, consistent with the roles of mixed signalling and information asymmetry examined in this study.

The findings reinforce the applicability of signalling theory and information asymmetry theory in elucidating the ramifications of inconsistent ESG assessments for market-based outcomes. From a practical standpoint, investors should take into account ratings from multiple providers when integrating ESG information into investment decisions, while corporate managers should enhance the transparency and consistency of ESG disclosure to diminish the uncertainty associated with divergent assessments. Subsequent research may broaden the geographical scope, incorporate additional ESG rating providers, investigate shifts in ESG regulatory frameworks, and employ more robust causal identification strategies to ascertain whether the associations documented in this study also represent causal effects.

ACKNOWLEDGEMENT

The author expresses her gratitude to the anonymous reviewers for their insightful comments and suggestions, which contributed to enhancing the quality of this manuscript.

AUTHOR CONTRIBUTION STATEMENT

Mintari Yulianingsih, as the sole author, assumed responsibility for the entire research and manuscript preparation process, encompassing conceptualization, research design, data analysis and interpretation, manuscript drafting, content review and revision, and approval of the final version for publication.

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