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Signalling ESG Misconduct: What Matters to Investors?

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ABSTRACT

We investigate what matters most to investors when environmental, social and governance (ESG)-related corporate misconduct news is signalled and how these factors influence the magnitude of market value punishment. Using an event study on 44,859 corporate news items related to ESG incidents, we find that investors react negatively to such signals, leading to market value losses of up to \$89.78 million. However, the reaction is more pronounced when news is reported in influential media sources, particularly regarding more severe incidents. Investors' reactions are stronger when the news is financially material to the firm and when the corporate misconduct violates certain Sustainable Development Goals (SDGs). Finally, we show that firms in high-sensitivity industries, which are subject to greater public attention and scrutiny of social responsibility, face more severe punishment for ESG misconduct. Our paper contributes to ongoing debates in the academic literature by providing empirical evidence that certain factors amplify investor punishment for ESG misconduct.

JEL classification: G14, G23, M14

1 | Introduction

Investors, being subject to information bias, tend to focus on news that conveys value-relevant information about their investment portfolio firms. In this context, growing societal concern about sustainability commitments and increasing demand for corporate social responsibility have made environmental, social and governance (ESG) information more salient to investors (Amel-Zadeh and Serafeim 2018; Lopez-de-Silanes et al. 2024; Bachner 2025). As a result, ESG considerations have become central to investment decision-making processes (Starks 2023), with ESG-based assets under management projected to surpass \$40 trillion by 2030.¹ From the investor's perspective, this growing focus on ESG performance is largely driven by concerns over portfolio risk, as ESG factors are increasingly viewed as indicators of downside risk and long-term financial stability (Jagannathan et al. 2018; Ilhan et al. 2021; Hoepner et al. 2024).

ESG broadly refers to a set of nonfinancial factors for assessing a firm's sustainability commitment, ethical practices and long-term resilience across environmental, social and governance

dimensions (Eccles and Viviers 2011; Gillan et al. 2021). While a growing body of literature suggests that ESG performance may be associated with firm outcomes such as cost of capital, firm value and operational performance, the empirical evidence remains mixed and contested. For example, a number of studies report lower market values for firms with poor ESG performance (Krüger 2015; Capelle-Blancard and Petit 2019; Glossner 2021; Serafeim and Yoon 2022; Gantchev et al. 2022; Karr et al. 2026). However, prior studies also report insignificant or inconsistent effects, particularly in relation to stock returns (e.g., Alves et al. 2025). These inconsistencies partly reflect differences in measurement approaches, such as reliance on ESG ratings, which are often subject to methodological divergence, time lags and limited comparability across providers (Berg et al. 2022; Chen et al. 2024). Accordingly, rather than engaging with the broad ESG-performance debate, this study focuses specifically on ESG misconduct news and examines how investors respond to such negative sustainability-related events.

Prior literature often suggests that negative ESG-related information may lead to adverse market reactions, as it can signal

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reputational damage and increased perceived risk. However, real-world evidence suggests that investor responses to ESG misconduct are not uniform. In some cases, firms experiencing repeated ESG controversies continue to perform strongly in financial markets, indicating that investors may not always penalise such events. For instance, throughout 2025 and early 2026, ExxonMobil faced significant criticism for its stance on shareholder climate resolutions.² Despite this, its stock price increased substantially, reaching an all-time high at the first quarter of 2026. Similarly, investor reactions to ESG misconduct are often triggered when such incidents are reported by reputable and influential media outlets. For example, following a 2018 report by the Guardian revealing that Cambridge Analytica had used millions of users' personal data from Facebook (Meta Platforms Inc.) without consent to build voter-profiling systems since 2014, Facebook experienced a significant decline in its stock price.³ This highlights an important gap in the literature. Rather than assuming a universally negative effect, it is essential to understand the conditions under which ESG misconduct becomes value relevant to investors. Therefore, in this study, we adopt a more context-dependent perspective, examining how the market reacts to negative news regarding ESG incidents, particularly when the news is published in more influential media (a source of news with higher 'reach'), when the incidents reported are of greater consequence ('severity') or when the event itself is financially material.

We argue that ESG controversy may affect firm reputation and, thus, any bad news is expected to be penalised by market investors (Lorraine et al. 2004). Mamingi et al. (2008) argue that the publication of a firm's negative news in print media is a source of regulatory pressure, to which capital markets are likely to react downward. In fact, stock markets are highly efficient at evaluating the impact of any new information on a firm's expected future cashflow. Therefore, any negative news (for instance, reporting of oil spills, chemical hazards, pollution related fines, complaints or warnings for poor working condition) may result in a negative stock market valuation by market participants (Dasgupta et al. 2001). From a signalling perspective, ESG controversies serve as negative signals to investors that a firm has violated established ESG norms, thereby undermining its perceived sustainability commitment and prompting adverse investor reactions (Paruchuri et al. 2021). However, the credibility of the news source is likely to affect the magnitude of the stock market reaction; that is, if the news comes from a credible source, the market may react more strongly than if it comes from an unreliable source (Kim et al. 2022). Likewise, the market is likely to react more to incidents that are of greater consequence and so more likely to attract public attention and regulatory pressure. Moreover, the financial materiality of ESG controversy is likely to play a critical role in shaping investor responses. Investors interpret financially material ESG controversies as more value-relevant signals, as they indicate violations of salient ESG norms with direct implications for future cash flows, risk exposure and firm valuation (Karr et al. 2026). Therefore, we expect that the magnitude of stock price reaction to news of ESG incident would depend on news source influence, severity or materiality of the incident.

To conduct the study, we collect firm-level corporate misconduct news from RepRisk related to 44,859 ESG incidents, including 2309 listed firms in the US,⁴ over the sample period of

2007–2020. RepRisk tracks ESG incidents-related data globally from more than 150,000 sources. These incidents are classified into 28 'issues' under ESG categories. Using advanced machine learning techniques, along with over 150 analysts, RepRisk maps incident data within various ESG framework, including the Sustainable Development Goals (SDGs) and Global Compact Principles of the United Nations (UN), and the materiality mapping of the Sustainability Accounting Standard Board (SASB).⁵ Moreover, it also provides ratings of the risk and severity of the incidents, as well as of the influence of the news source.

We conduct an event study to examine the investor reaction for ESG misconduct news. We find that the investors react negatively to such news, resulting in a stock return decline of -8 to -12 basis points. Additionally, we investigate the effects of the source of news (in terms of its influence or 'reach') and the 'severity' of the incidents. We find that the negative stock market reaction is greater when the news appears in more influential sources (higher reach) or concerns incidents that have more consequential effects (higher severity).

Given the premise that investor reactions to ESG incidents are not homogenous, we further conduct three analyses. These analyses aim to understand the differential impacts of various ESG incidents on market reaction.

First, we explore the market value effect of financially material events. From the perspective of investors, not all of the incidents affecting their portfolio firms may be financially material. Therefore, we have followed the SASB materiality mapping to identify the materiality of the incidents. In our study, we find that financial materiality plays a significant role. Specifically, the market reacts more negatively when news reports an ESG incident that is likely to have a significant material impact on a company's financial performance.

Second, we segregate the ESG dimensions because news of incidents within each of the three dimensions of ESG may not be equally valued by market investors. Among the three dimensions, we find significant price reactions to news of all incidents⁶ related to governance and social aspects. Within the social (S) and governance (G) dimensions, the negative stock market reaction is more pronounced for higher-reach sources of news and for higher-severity incidents than it is for all incidents. Within the environmental (E) dimension, statistically significant price reactions are found only when the incidents are of greater consequence (a high severity rating).

Third, we look at the investor reaction to ESG misconduct that violates the SDGs. Investors may alternatively assess sustainability performance in relation to SDGs, as ESG is a relatively new phenomenon (Khaled et al. 2021). The SDGs are closely related to ESG, as both frameworks promote sustainability by ensuring more socially equitable, environmentally responsible and good governance practices. Although ESG and SDGs are related concepts within the broader sustainability domain, they are fundamentally different in terms of their focus and underlying objectives. ESG primarily focuses on financial materiality and firm-level risk, whereas SDGs are concerned with broader societal and real-world outcomes such as poverty reduction, climate action and institutional quality. As highlighted by van

Zanten (2025), ESG and SDGs exhibit conceptual differences and should be viewed as complementary rather than interchangeable frameworks. Similarly, Calabrese et al. (2021) argue that linking ESG initiatives to SDGs can provide more meaningful insights for investors, while López-Cabarcos et al. (2025) show that ESG factors can contribute to achieving SDGs. In this study, we leverage this distinction by examining how ESG misconduct events relate not only to firm-level financial implications but also to violations of broader societal objectives captured by the SDGs, thereby providing a more comprehensive perspective on sustainability-related risks.

We also explore investor reactions in relation to industry sensitivity to socially responsible performance. High-sensitivity industries (e.g., energy and chemicals) are subject to greater public attention and scrutiny, as well as more regulatory constraints, as there is a higher risk of societal impact (Roberts 1992; Reverte 2009; Pérez et al. 2015). Therefore, firms within these industries are likely to be more adversely affected by news of their ESG incidents. We do indeed find a more pronounced negative stock market reaction for firms within high-sensitivity industries.

Our study contributes to the literature that explores the value implications of ESG misconduct. A large number of studies have explored the value relevance of ESG incidents, mostly in a single dimension (e.g., Bowen et al. 1983; Rao 1996; Lorraine et al. 2004; Karpoff et al. 2005; Brammer et al. 2006; Kappel et al. 2009; Jacobs and Singhal 2017). Some recent studies have similarly explored the market price effects of negative ESG news (Krüger 2015; Capelle-Blancard and Petit 2019; Serafeim and Yoon 2022; Brandon et al. 2022; Gantchev et al. 2022; Cró et al. 2025). Compared to these prior studies, our much more recent sample provides more consistent evidence of how investors react to corporate misconduct when investors are more aware of ESG risk. For example, using the KLD database, Krüger (2015) studies the stock price effect of ESG-related events for US firms over the period of 2001–2007. Based on binary indication of strength and weakness of ESG-related issues in the KLD database, he identified a total of 2116 events under the environmental and social dimensions. He shows that investors respond strongly negatively to negative ESG events and weakly negatively to positive ESG events. However, our large dataset based on the machine learning algorithm of RepRisk provides more relevant and consistent information compared to hand-collected or manually coded ESG data. This also allows us to provide more comprehensive and generalisable evidence on investor reactions to ESG controversies compared to prior studies.

While earlier research (e.g., Krüger 2015; Serafeim and Yoon 2022; Gantchev et al. 2022) provides important insights into ESG-related market responses, these studies typically focus on more limited samples or specific types of ESG information in a more aggregated manner. Serafeim and Yoon (2022) find that market return is related to ‘financially material’ positive ESG news only, but not negative ones. On the other hand, Gantchev et al. (2022) report that environmental and social (E&S) conscious investors divest their investment following negative market reaction to negative E&S news. However, none one of these prior studies explain what type of corporate misconduct news matters most to investors, specifically in relation to the consequential effects

of incidents and sources of news. Therefore, contrast to prior studies, we also evaluate the influence of the news source (reach) and the severity of the corporate misconduct on the investor's reaction. More importantly, our study provides novel evidence on the simultaneous and interacting effects of incident severity and media reach. We show that investor reactions are significantly amplified when ESG incidents are both highly severe and widely disseminated through influential media channels. This interaction offers a more nuanced understanding of how ESG-related information is processed in capital markets.

We also add to the literature on the financial materiality of ESG issues (Khan et al. 2016; Schiehl and Kolahgar 2021; Grewal et al. 2021; Serafeim and Yoon 2022; Karr et al. 2026). The financial materiality of news regarding ESG incidents is what matters to investors. The SASB's materiality assessment helps investors assess ESG issues that are most likely to affect a company's financial performance and, thus, allows them to properly account for their ESG analysis in their investment decision-making. We also find a significant effect of materiality. Specifically, we find stronger stock price reactions when the news of the ESG incident is material to the firm.

Finally, our study contributes by explicitly linking ESG misconduct to violations of SDGs. We provide evidence that investors also react to ESG incidents in the context of broader sustainability frameworks. In particular, we identify that ESG incidents involving violations related to SDG 16 (Peace, Justice, and Strong Institutions) generate the strongest negative market reactions, suggesting that governance-related failures may signal deeper institutional and control weaknesses.

The remainder of this paper is organised as follows. Section 2 develops the hypotheses. Section 3 describes the data and research methodologies. Section 4 provides empirical results, and the last section concludes.

2 | Hypothesis Development

2.1 | Stock Market Reaction to ESG Misconduct

A firm's ESG performance gives signals to the market about its commitment to social responsibility, which also reduces information asymmetry for investors (Lys et al. 2015; Fu 2023). Regulatory and reputational penalties for firms with poor ESG performance can adversely affect future cash flows and financial performance (Karr et al. 2026). Accordingly, ESG misconduct news represents a negative signal that may alter investor perceptions of firm value and is therefore of significant concern to market participants (Wong and Zhang 2022). From a valuation perspective, these effects are expected to be reflected in stock price adjustments, as investors update their expectations based on newly available information.

There is also prior evidence that ESG performance affects market value. Based on the EthicalQuote database, Capelle-Blancard and Petit (2019) report negative stock price reactions to negative ESG-related events for the 100 largest firms around the world listed on the Dow Jones Titans Index over the period 2002–2010. Using a sample of 3109 firms from different

countries for the period 2010–2018 from the Truvalue Labs database, Serafeim and Yoon (2022) report that market return is related to ‘financially material’ ESG news. Gantchev et al. (2022) report negative stock price reactions to news of incidents within the environmental and social dimensions of ESG. These studies suggest that with growing public scrutiny of ESG performance, underperforming firms lose market value due to reputational risk and potential legal penalties. Accordingly, we formulate our first hypothesis:

H1. *Investors respond negatively to firms’ ESG misconduct news, as reflected in negative cumulative abnormal returns (CARs).*

2.2 | The Source and Severity of News Regarding ESG Misconduct

The media shape investors’ trading behaviour and affect security pricing (Tetlock 2007; Fang and Peress 2009; Engelberg and Parsons 2011; Guest 2021). The extent to which the stock market reacts to negative ESG news will depend on several factors, including the credibility of the news source⁷ and the severity⁸ of the incident reported. Within a signalling framework, media reach affects the diffusion and credibility of the signal. The neutrality and authenticity of news sources are a prime concern for market investors (Capelle-Blancard and Petit 2019) and trustworthy and reputable news sources have a larger influence on stock prices than less well regarded sources (Huberman and Regev 2001; Griffin et al. 2011). Specifically, negative news is likely to have a greater impact if the source is highly respected and has a large audience, while news reported by less credible or less well-known sources may have a smaller impact on the stock price, as investors may be more sceptical about the accuracy of the information. Therefore, ESG misconduct reported by widely recognised and reputable sources is more likely to attract investor attention and reduce information asymmetry, leading to stronger market reactions.

Market reactions to an ESG incident may also depend on its severity. More severe incidents can damage a company’s reputation or increase regulatory risk. Increased scrutiny from regulators results in higher costs and potential legal consequences. The negative impact on the company’s financial performance would lead to a more negative stock market reaction. Prior studies document that market reaction is indeed more severe when the ESG incident is more consequential. For example, there was an environmental incident in Bhopal, India in 1984, where toxic gas leaked from Union Carbide Corporation’s chemical plant. Apart from the negative environmental effect, this incident killed over 3000 people instantly and 20,000 people have died since from related conditions.⁹ Following this high severity incident of chemical leak, the stock price effect for Union Carbide was –31.5% (Salinger 1992).¹⁰ Ye and Hu (2025) also report that financial misconduct with greater severity results in more negative investor reactions.

Therefore, we expect that negative market reactions to ESG news are more pronounced when the news source is more influential or when the incident reported is of greater consequence. Accordingly, we postulate our next hypothesis as:

H2a. *The media reach of ESG misconduct news is associated with a more pronounced stock price reaction, such that incidents reported by more influential media sources lead to more negative cumulative abnormal returns (CARs).*

H2b. *The severity of ESG misconduct is associated with a more pronounced stock price reaction, such that more severe incidents lead to more negative cumulative abnormal returns (CARs).*

Furthermore, highly severe incidents that are widely disseminated through influential media channels generate stronger and more credible signals, thereby amplifying their impact on investor decision-making. Accordingly, when ESG incidents are both severe and widely reported in influential news sources, they are likely to result in a more negative investor reaction. A severe incident might not capture investors’ attention if the news is not from a reputable source. Conversely, investors may not be concerned about ESG incidents of low severity, even if the news comes from an influential source. Influential media coverage increases the visibility of severe incidents and can elevate public demand for greater scrutiny from regulators as well as for immediate legal action.

Therefore, we expect that market reactions to news of ESG incidents will be amplified by the simultaneous impact of the severity of the incident and the source’s degree of influence.

Accordingly, we postulate our next hypothesis as:

H2c. *The negative effect of ESG misconduct on cumulative abnormal returns (CARs) is more pronounced when more severe incidents are reported by more influential media sources.*

2.3 | The Financial Materiality of News

An increasing body of literature is now focusing on the materiality of events, that is, their financial and operational implications for the firm (Khan et al. 2016; Spandel et al. 2025; Schiehl and Kolahgar 2021; Grewal et al. 2021; Serafeim and Yoon 2022). For example, when there is significant sustainability risk related to climate change, investors may want to assess the company’s carbon emissions, energy use and exposure to physical risks associated with climate change. This would be more value-relevant for firms in the energy sector than for those in the financial sector.

The initial evidence on SASB-based sustainability materiality for stock returns, as presented by Khan et al. (2016), indicates that firms with good ESG ratings outperform firms with poor ratings on issues that are evaluated as being ‘material.’ Grewal et al. (2021) find that voluntary sustainability disclosure increases stock price informativeness more when the sustainability issue is material to the firms. These studies suggest that investors assess the financial materiality of ESG incidents and react more negatively to news of ESG incidents that are assessed as being financially material due to increased financial risk from the incident. Therefore, we develop our next hypothesis as:

H3. *The negative stock price reaction to ESG misconduct is more pronounced for financially material incidents, such that*

financially material ESG misconduct news leads to more negative cumulative abnormal returns (CARs).

3 | Research Method

3.1 | Data

We use data on news articles concerning ESG incidents from RepRisk,¹¹ a leading provider of ESG data. RepRisk covers more than 310,000 public and private companies globally and tracks records of ESG-related incidents on a daily basis from public news sources, which range from the local to the international.

RepRisk rates news in terms of severity, reach and novelty. Severity defines the ESG incident in terms of consequence and ranges from 1 (low) to 3 (high). Reach defines the ESG incident in terms of how influential the source of news is and ranges from 1 (limited or low) to 3 (high). Novelty tracks the news in terms of newness of the incident, that is, whether a company is exposed to a specific ESG issue in a specific location for the first time. We classify 'low reach' and 'low severity' as a score of 1 and 'higher reach' and 'higher severity' as any score over 1, that is, 2 and 3.

The strength of RepRisk is that it employs techniques such as big data and artificial intelligence algorithms combined with human intelligence to track ESG incidents and translate them into risk metrics. This systematic and rules-based approach ensures the relevance and transparency of information.

We collect stock return data from CRSP. Market returns and Fama–French risk factors are obtained from the Kenneth R. French Data Library,¹² a standard source widely used for factors data (e.g., Bandurski and Postek 2023; Koch and Schiereck 2025).

3.2 | Event Study Methodology

We use event study methodology to assess the investor reaction. An event study is a forward-looking valuation of changes in the stock market return resulting from the capital market reaction to firm-specific information (relevant news or other forms of unanticipated information). Therefore, it is a direct method of determining investors' responses. The basis of the event study methodology in the sustainability literature is that if new information deviates from the investors' expectations, it is highly likely to result in an abnormal shift in stock price, reflecting a change in investors' perception of the firm's sustainable business performance (Pandey et al. 2024; Ordonez-Borrillo et al. 2026).

In an event study, abnormal return (AR) captures the event's impact on shareholders' wealth. In this study, we directly measure the stock market reaction to ESG news through the market model as in MacKinlay (1997). The event study methodology is particularly well-suited for examining the market impact of ESG misconduct news as it has several methodological advantages. This design limits the scope for reverse causality, as it is

unlikely that stock price movements influence the occurrence or timing of ESG-related news events (Serafeim and Yoon 2022). Furthermore, over short time horizons, firm characteristics remain effectively constant, reducing concerns about omitted variable bias in explaining ARs (Ding et al. 2018). Moreover, the standard event study methodology does not typically require the inclusion of additional control variables, as the market model already accounts for systematic risk factors affecting stock returns.

The generic form of our event study model is:

$$AR_{it} = R_{it} - \alpha_i - \beta_i R_{mt} \quad (1)$$

where R_{it} and AR_{it} are the return and AR of firm i at time t , R_{mt} is the contemporaneous market return, α_i is a constant term for firm i and β_i is the slope of the characteristic return of firm i , with the parameters of the model (α_i and β_i) estimated over a period prior to the event. Our estimation period is 250 trading days ending 50 trading days before the event date (Krüger 2015). The average ARs over different event windows are then aggregated to get a cumulative abnormal return (CAR), which gives the average inference about market return across all events for all companies. We determine 3-day $[-1, 1]$, 5-day $[-2, 2]$ and 7-day $[-3, 3]$ CARs around the event date.

3.3 | Sample

Our sample period covers 2007–2020. Initially, our study includes all the US listed firms¹³ associated with news of ESG incidents as provided by RepRisk. However, standard filtering is applied to better capture the stock price reaction to news, principally because the presence of more than one news item reporting ESG incidents within a short time frame in the event study would create noise and confounding effects. For example, if several news articles appear within, say, a week, it is expected that investors will pay much more attention to the most severe incident reported. To address this concern, for each firm, we select only one event per week—the most severe, and in the case of multiple events with the same severity level, the one with the earliest occurrence. Furthermore, we exclude other confounding news and those events for which there is insufficient returns data within the estimation window to conduct the event study. This leaves us with a total of 44,859 news items regarding ESG incidents relating to 2309 public firms.

4 | Results

4.1 | Descriptive Statistics

Figure 1 gives an overview of the ESG incidents from 2007 to 2020. It shows that the annual number of incidents increased over the study period, especially after 2010 until 2014 and then again after 2016, following increased media attention, most likely attributed to the launch of the SASB in 2011 and the creation of the SDGs in 2015.

Table 1 shows summary statistics of event-day AR and CAR over different event windows. The mean AR on the event day is -6

basis points, –8 basis points and –9 basis points for all incidents, incidents reported in higher-reach sources and higher-severity incidents, respectively.

4.2 | Main Results

4.2.1 | Cumulative Abnormal Returns as Investors Reactions

The results of the event study analysis testing [H1](#) are shown in Table 2. For all ESG news types, in Column 1, we find that, on average, the CARs are negative and highly statistically significant, confirming our first hypothesis. This provides evidence

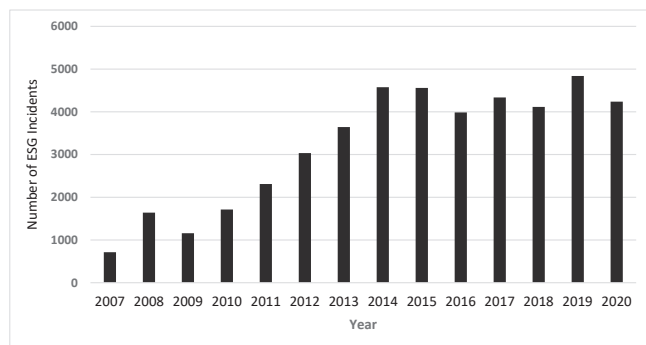


FIGURE 1 | Number of news items by year. Descriptive statistics for news of ESG incidents. This figure plots the number of news items reporting ESG incidents from 2007 to 2020 for the sample firms.

that investors negatively value firms associated with ESG incidents, leading to a significant decline in stock price. This ranges from –8 basis points in the 3-day event window to –12 basis points in the 7-day window. The finding is of economic significance: the mean market capitalization of sample firms is \$74.82 billion, and these figures therefore correspond to average market value losses of \$59.86 million and \$89.78 million, respectively.

4.2.2 | News Source and Severity

However, our objective is not only to show the average market reactions to all ESG news but also to determine whether the magnitude of the reactions is affected by the influence of the news source and the severity of the incidents. In Table 2, Column 3 shows CARs for higher-reach news only and Column 5 shows CARs for higher-severity incidents only. We find that the negative stock market reaction is more pronounced when the incident is reported in a more influential news source or is of higher severity. Thus, this supports our [H2a](#) and [H2b](#).

We also separately analyse stock market reactions to the more severe ESG incidents reported in more influential news sources. Column 7 of Table 2 shows that the stock market reaction becomes more negative when an ESG incident is both of higher severity and reported in a more influential news source. In support of [H2c](#), the mean CAR reaches –22 basis points in the 7-day event window, which is significant at the 1% level ($t = -3.18$).

TABLE 1 | Summary statistics.

	Mean	Std Dev	25th	Median	75th	Obs
Panel A: All incidents						
Abnormal return (%)	–0.06	2.87	–0.80	–0.05	0.70	44,859
CAR –1 to 1 (%)	–0.08	4.56	–1.44	–0.08	1.29	44,859
CAR –2 to 2 (%)	–0.09	5.81	–1.90	–0.10	1.70	44,859
CAR –3 to 3 (%)	–0.12	6.55	–2.29	–0.10	2.07	44,859
Panel B: Higher-reach incidents						
Abnormal return (%)	–0.08	2.84	–0.80	–0.05	0.71	26,493
CAR –1 to 1 (%)	–0.14	4.51	–1.48	–0.10	1.27	26,493
CAR –2 to 2 (%)	–0.13	6.04	–1.95	–0.13	1.68	26,493
CAR –3 to 3 (%)	–0.19	6.72	–2.37	–0.14	2.06	26,493
Panel C: Higher-severity incidents						
Abnormal return (%)	–0.09	2.33	–0.77	–0.05	0.67	17,099
CAR –1 to 1 (%)	–0.13	4.05	–1.38	–0.08	1.24	17,099
CAR –2 to 2 (%)	–0.12	5.07	–1.79	–0.08	1.64	17,099
CAR –3 to 3 (%)	–0.11	5.99	–2.18	–0.08	2.04	17,099

Note: The table shows summary statistics of event day abnormal return and cumulative abnormal return (CAR). The sample consists of US listed firms from 2007 to 2020. We estimate abnormal return using the market model. Panel A shows returns for news of all incidents, Panel B shows returns for higher-reach incidents and Panel C shows returns for higher-severity incidents. Reach indicates the influence of a news source based on readership/circulation as well as its importance in a specific country. Reach ranges from 1 to 3. We define ‘higher reach’ when the levels are 2 and 3. Severity of the incident is based on its consequences, extent and cause and ranges from 1 to 3. We define ‘higher severity’ when the levels are 2 and 3. All incidents means full sample of ESG incidents with all levels (1, 2 and 3) of reach and severity.

TABLE 2 | Cumulative abnormal return of news of ESG incidents.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Mean CAR (%)						
Event window	All incidents	Low-reach incidents	Higher-reach incidents	Low-severity incidents	Higher-severity incidents	Low-reach, low-severity incidents	Higher-reach, higher-severity incidents
[−1, +1]	−0.08*** (−3.8)	−0.004 (−0.10)	−0.14*** (−4.91)	−0.05* (−1.85)	−0.13*** (−4.10)	0.06 (1.13)	−0.18*** (−3.97)
[−2, +2]	−0.09*** (−3.28)	−0.03 (−0.71)	−0.13*** (−3.58)	−0.07* (−1.84)	−0.12*** (−3.22)	0.03 (0.41)	−0.16*** (−2.71)
[−3, +3]	−0.12*** (−3.96)	−0.03 (−0.62)	−0.19*** (−4.54)	−0.13*** (−3.18)	−0.11** (−2.37)	−0.05 (−0.78)	−0.22*** (−3.18)
<i>n</i>	44,859	18,366	26,493	27,760	17,099	9699	8432

Note: This table shows cumulative abnormal return (CAR) of sample listed firms around news of ESG incidents from 2007 to 2020. We estimate abnormal return using the market model. The estimation period is 250 trading days ending 50 trading days before the event date. CARs are estimated over 3-day [−1 + 1], 5-day [−2, +2] and 7-day [−3, +3] event window. Reach indicates the influence of a news source based on readership/circulation as well as its importance in a specific country. Reach ranges from 1 to 3. We define 'higher reach' when the levels are 2 and 3. Severity of the incident is based on its consequences, extent and cause and ranges from 1 to 3. We define 'higher severity' when the levels are 2 and 3. All incidents refer to the full sample of ESG incidents, including all levels (1, 2 and 3) of reach and severity. Column 1 includes all ESG incidents, Column 2 includes incidents that are low-reach, Column 3 includes incidents that are higher reach, Column 4 includes incidents that are low-severity, Column 5 includes incidents that are higher severity, Column 6 includes incidents that are both low-reach and low-severity, Column 7 includes incidents that are both higher reach and higher severity. The *t*-statistics are in parenthesis.

***, ** and * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

4.2.3 | Does Materiality Matter?

Investors may pay attention to ESG news only when they perceive that it has a financially material impact on their portfolio firm (Guiral et al. 2020). In Table 3, Panel A shows results for observations of material issues only and Panel B shows results for observations of nonmaterial issues as per the SASB materiality framework. We find that the negative stock market reaction to ESG news becomes more pronounced when the incident is financially material than when the news concerns nonmaterial issues. This supports H3. The economic significance increases when we restrict the sample to higher-reach and higher-severity incidents.

4.3 | Additional Analysis

4.3.1 | CARs of ESG Incidents by ESG Dimensions

In this section, we explore stock market reactions under each of three ESG dimensions. Table 4 shows the results.

Panel A shows stock market reactions when the news is of purely environmental incidents. Investors do not equally value all such news and react negatively only when an environmental incident is of higher severity, resulting in a CAR of up to −20 basis points over the 5-day event window. We find similar results when analysing only material incidents.

Panel B shows stock markets' reactions when the news concerns purely social issues. Although investors value all incidents in the social category negatively (up to −8 basis points), their reactions are more negative for incidents of higher severity than for those reported by more influential news sources.

Panel C shows stock market reactions when the news concerns governance issues. Although investors value all incidents in the

governance category negatively (up to −21 basis points), the reaction is more negative for incidents reported in a more influential news source. When we restrict our sample to material news only, we observe an increase in economic significance.

4.3.2 | Specific ESG Issues

ESG is a broad concept, with many issues under each dimension. Therefore, to better understand stock market reactions to news of incidents, we further divide our sample by ESG issues. In Table 5, among 28 RepRisk classified ESG issues,¹⁴ we report ones with statistically significant effects for news of all types of incidents.

Although there are many other issues in the environmental category, our results show that investors mostly pay attention to particular issues which have a direct effect on firm value. In that category, the two most significant issues related to negative stock price reactions are 'overuse and wasting of resources' and 'waste.'

The three significant issues in the social category are 'impacts on communities,' 'occupational health and safety' and 'poor employment conditions.'

Next, we explore stock price reactions to the issues in the governance category. In this category, we find that 'anti-competitive practices,' 'corruption' and 'fraud' cause significant negative stock price reactions.

Our results further reveal that the stock market also negatively reacts to news that is multidimensional in nature, for example concerning 'controversial products and services' or 'violation of national legislation,' where the concerned firms may be subject to greater litigation risk and may be avoided by norm-constrained investors (Nourayi 1994; Hong and Kacperczyk 2009).

TABLE 3 | Cumulative abnormal return for material ESG news.

Panel A: Material issues							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Mean CAR (%)						
Event window	All incidents	Low-reach incidents	Higher-reach incidents	Low-severity incidents	Higher-severity incidents	Low-reach, low-severity incidents	Higher-reach, higher-severity incidents
[−1, +1]	−0.11*** (−2.87)	−0.002 (−0.03)	−0.18*** (−4.04)	−0.07 (−1.33)	−0.17*** (−3.11)	−0.11 (−1.05)	−0.20*** (−2.69)
[−2, +2]	−0.12*** (−2.63)	−0.07 (−0.94)	−0.16*** (−2.66)	−0.12* (−1.81)	−0.14** (−1.97)	−0.01 (−0.12)	−0.14 (−1.33)
[−3, +3]	−0.20*** (−3.71)	−0.13 (−1.38)	−0.25*** (−3.74)	−0.19*** (−2.82)	−0.20** (−2.42)	−0.16 (−1.18)	−0.30** (−2.54)
<i>n</i>	17,985	7199	10,786	10,674	7311	3876	3988
Panel B: Nonmaterial Issues							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Mean CAR (%)						
Event window	All incidents	Low-reach incidents	Higher-reach incidents	Low-severity incidents	Higher-severity incidents	Low-reach, low-severity incidents	Higher-reach, higher-severity incidents
[−1, +1]	−0.06** (−2.50)	−0.005 (−0.14)	−0.10*** (−2.98)	−0.04 (−1.29)	−0.10*** (−2.67)	0.03 (0.49)	−0.17*** (−2.97)
[−2, +2]	−0.07** (−2.03)	0.00 (0.00)	−0.11** (−2.44)	−0.04 (−0.86)	−0.12*** (−2.66)	0.05 (0.78)	−0.19 (−2.78)
[−3, +3]	−0.07** (−1.91)	0.03 (0.63)	−0.14*** (−2.75)	0.09* (−1.75)	−0.04 (−0.79)	0.01 (0.17)	−0.15* (−1.90)
<i>n</i>	26,874	11,167	15,707	17,086	9788	5823	4444

Note: This table shows cumulative abnormal return (CAR) around news of material ESG incidents. ‘Materiality’ is assessed using the Sustainability Accounting Standards Board (SASB) materiality framework. Panel A shows results for observations of material ESG issues and Panel B shows results for observation of nonmaterial ESG issues. Column 1 includes all ESG incidents, Column 2 includes incidents that are low-reach, Column 3 includes incidents that are higher reach, Column 4 includes incidents that are low-severity, Column 5 includes incidents that are higher severity, Column 6 includes incidents that are both low-reach and low-severity, Column 7 includes incidents that are both higher reach and higher severity. The *t*-statistics are in parenthesis.

***, ** and * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

4.3.3 | Investors Reactions to News of Incidents That Violate the SDGs

In this section, we examine stock market reactions to ESG misconduct news that is linked to violations of the SDGs. The SDGs comprise 17 global goals adopted by the United Nations in 2015, aimed at achieving a sustainable future by addressing key economic, social and environmental challenges. While firms may contribute to these goals through responsible business practices, SDGs fundamentally differ from ESG in that they emphasize real-world societal outcomes rather than firm-level financial materiality. Nowadays, investors prioritise ESG factors in their investment decisions by allocating capital to companies that align with the SDGs (Ng and Rezaee 2020; Bauer et al. 2021). Rather than assuming a direct relationship between ESG performance and SDG attainment, we use SDG classifications as a framework to assess whether ESG misconduct events signal broader societal and institutional risks that may be relevant to investors. Using RepRisk mappings,

we identify ESG incidents associated with specific SDG violations and analyse their corresponding stock market reactions. Specifically, we investigate whether ESG misconduct events that hinder progress toward particular SDGs generate differential stock price reactions.

Table 6 presents the stock market reactions to ESG misconduct news associated with SDG violations. The results indicate that investor responses are not uniform across all SDGs, with statistically significant negative reactions observed for four SDGs.

First, ESG misconduct linked to SDG 3 (Good Health and Well-being) is associated with negative ARs. Apart from reflecting internal workforce disruptions, many SDG 3–related incidents in our dataset relate to adverse health impacts on external stakeholders, such as local communities. These events may expose firms to litigation risk, regulatory scrutiny and reputational damage, which can negatively affect investor expectations.

TABLE 4 | CAR of ESG news in different ESG dimensions.

Panel A: Environmental category									
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
Mean CAR (%)									
Material issues									
Event window	All observations								
		Higher-reach incidents	Higher-severity incidents	Higher-reach, higher-severity incidents	All incidents	Higher-reach incidents	Higher-severity incidents	Higher-reach, higher-severity incidents	
	[−1, +1]	0.01 (0.35)	−0.003 (−0.06)	−0.18*** (−3.81)	−0.17** (−2.43)	0.02 (0.30)	−0.02 (−0.23)	−0.19*** (−2.60)	−0.11 (−1.00)
	[−2, +2]	−0.02 (−0.37)	−0.01 (−0.18)	−0.20*** (−3.35)	−0.16* (−1.75)	−0.03 (−0.31)	0.02 (0.19)	−0.18* (−1.74)	0.01 (0.08)
	[−3, +3]	−0.04 (−0.72)	−0.07 (−0.99)	−0.16** (−2.19)	−0.24** (−2.30)	−0.07 (−0.77)	−0.10 (−0.72)	−0.16 (−1.25)	−0.16 (−0.75)
<i>n</i>	14,507	7327	6529	3033	6791	3307	3404	1590	
Panel B: Social category									
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
Mean CAR (%)									
Material issues									
Event window	All observations								
		Higher-reach incidents	Higher-severity incidents	Higher-reach, higher-severity incidents	All incidents	Higher-reach incidents	Higher-severity incidents	Higher-reach, higher-severity incidents	
	[−1, +1]	−0.06** (−2.22)	−0.08** (−1.96)	−0.11*** (−2.95)	−0.08 (−1.38)	−0.10** (−2.11)	−0.08 (−1.23)	−0.14** (−2.26)	−0.07 (−0.70)
	[−2, +2]	−0.08** (−2.19)	−0.09* (−1.88)	−0.13*** (−2.59)	−0.11 (−1.46)	−0.14** (−2.21)	−0.08 (−0.86)	−0.15* (−1.76)	−0.04 (−0.31)

(Continues)

TABLE 4 | (Continued)

Panel B: Social category								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Mean CAR (%)								
All observations					Material issues			
Event window	All incidents	Higher-reach incidents	Higher-severity incidents	Higher-reach, higher-severity incidents	All incidents	Higher-reach incidents	Higher-severity incidents	Higher-reach, higher-severity incidents
[−3, +3]	−0.06 (−1.51)	−0.10* (−1.74)	−0.11* (−1.85)	−0.18** (−1.93)	−0.18*** (−2.55)	−0.16 (−1.57)	−0.20* (−1.92)	−0.18 (−1.07)
<i>n</i>	22,177	11,729	9907	4529	9699	4992	4738	2204
Panel C: Governance category								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Mean CAR (%)								
All observations					Material issues			
Event window	All incidents	Higher-reach incidents	Higher-severity incidents	Higher-reach, higher-severity incidents	All incidents	Higher-reach incidents	Higher-severity incidents	Higher-reach, higher-severity incidents
[−1, +1]	−0.16*** (−4.71)	−0.25*** (−5.30)	−0.13*** (−2.68)	−0.25*** (−3.36)	−0.27*** (−4.60)	−0.34*** (−4.97)	−0.23*** (−2.59)	−0.27** (−2.39)
[−2, +2]	−0.14*** (−3.16)	−0.23*** (−3.62)	−0.09 (−1.49)	−0.20** (−2.26)	−0.25*** (−3.58)	−0.28*** (−3.25)	−0.20* (−1.88)	−0.19 (−1.32)
[−3, +3]	−0.21*** (−4.07)	−0.35*** (−4.97)	−0.05 (−0.72)	−0.28*** (−2.72)	−0.37*** (−4.39)	−0.39*** (−3.92)	−0.24* (−1.88)	−0.35** (−2.13)
<i>n</i>	18,009	10,628	7907	3572	7506	4714	3341	1810

Note: This table shows CAR of ESG news in different ESG dimensions. Panel A shows the environmental category, Panel B shows the social category and Panel C shows the governance category. Left side shows all observations of ESG incidents, including both material and nonmaterial issues. Right side shows observations of ESG incidents which are financially material only. Columns 1 and 5 include all ESG incidents, Columns 2 and 6 include incidents that are higher reach, Columns 3 and 7 include incidents that are higher severity, Columns 4 and 8 include incidents that are both higher reach and higher severity. The *t*-statistics are in parenthesis. ***, ** and * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

TABLE 5 | CAR of ESG news of different ESG issues.

	(1)	(2)	(3)	
	Mean CAR (%)			
Issues	[−1, +1]	[−2, +2]	[−3, +3]	<i>n</i>
Panel A: Environmental category				
Overuse and wasting of resources	−0.23 (−1.44)	−0.30 (−1.39)	−0.50** (−1.98)	796
Waste	−0.19** (−2.39)	−0.23** (−1.93)	−0.31** (−2.06)	2762
Panel B: Social category				
Impacts on communities	−0.08** (−2.04)	−0.11** (−2.09)	−0.14** (−2.21)	11,006
Occupational health and safety	−0.22*** (−3.26)	−0.24*** (−2.58)	−0.21* (−1.89)	4098
Poor employment conditions	−0.11** (−1.96)	−0.05 (−0.71)	0.05 (0.58)	5120
Panel C: Governance category				
Anticompetitive practices	−0.15* (−1.86)	−0.08 (−0.84)	−0.10 (−0.93)	3193
Corruption, bribery, extortion, money laundering	−0.10 (−1.32)	−0.13 (−1.46)	−0.33*** (−3.16)	4118
Fraud	−0.41*** (−5.52)	−0.48*** (−5.49)	−0.70*** (−6.92)	6166
Panel D: Mixed category				
Controversial products and services	−0.06 (−1.40)	−0.09* (−1.62)	−0.18*** (−2.82)	5611
Products (health and environment)	−0.24*** (−3.90)	−0.28*** (−3.49)	−0.27*** (−3.01)	5005
Violation of national legislation	−0.18*** (−5.56)	−0.18*** (−4.52)	−0.23*** (−4.84)	19,116

Note: This table shows CAR of ESG news of different ESG issues (only ones with statistically significant effects). Panel A shows issues in the Environmental category, Panel B shows issues in the Social category, Panel C shows issues in the Governance category and Panel D shows issues in the Mixed category, that is, when an issue could be related to more than one ESG category. The *t*-statistics are in parenthesis.

***, ** and * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

TABLE 6 | CAR of ESG news in SDGs categories.

Event Window	(1)	(2)	(3)	(4)
	Mean CAR (%)			
	SDG 3: Good Health and Well-being	SDG 7: Affordable and Clean Energy	SDG 8: Decent Work and Economic Growth	SDG 16: Peace, Justice and Strong Institutions
[−1, +1]	−0.15*** (−3.98)	−0.06 (−1.10)	−0.11*** (−2.60)	−0.19*** (−6.15)
[−2, +2]	−0.19*** (−3.84)	−0.18** (−2.34)	−0.09* (−1.69)	−0.19*** (−4.88)
[−3, +3]	−0.20*** (−3.41)	−0.18** (−1.96)	−0.06 (−0.88)	−0.24*** (−5.31)
<i>n</i>	12,447	3256	9925	20,225

Note: This table shows CAR of news regarding ESG incidents that violate Sustainable Development Goals (SDGs) (only those where the results are statistically significant). The *t*-statistics are in parenthesis.

***, ** and * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

Second, ESG incidents associated with SDG 7 (Affordable and Clean Energy) also result in negative market reactions. Violations in this domain may signal operational inefficiencies, supply chain disruptions or exposure to transition risks, particularly in energy-intensive industries, thereby increasing uncertainty around future costs and performance.

Third, violations related to SDG 8 (Decent Work and Economic Growth) are linked to negative stock price reactions. These incidents often involve labour practices and employment conditions, which may signal potential disruptions to operations, increased regulatory risk or reputational concerns affecting firm productivity and long-term growth prospects.

The most pronounced negative market reaction (CAR of −24 basis points) is observed for violations related to SDG 16 (Peace, Justice, and Strong Institutions). SDG 16-related incidents are primarily associated with governance failures, such as corruption, regulatory breaches or weak institutional compliance. Such events may signal a breakdown in internal controls, deficiencies in governance structures and failures in managerial oversight. From a signalling perspective, these governance-related violations convey highly value-relevant negative information about governance and managerial quality. These signals are particularly concerning for investors, as they may indicate persistent and systemic risks rather than isolated incidents. As a result, investors respond more strongly to SDG 16 violations, reflecting

growing concerns about firm stability, transparency and future cash flow uncertainty.

In contrast, violations associated with other SDGs (e.g., SDG 4: Quality Education) do not result statistically significant market reactions. This may reflect the fact that such incidents are less directly linked to immediate financial or operational risks and therefore may be perceived by investors as less financially material in the short term.

4.3.4 | Investors Reactions to ESG News by Industry Profile

Stock market reactions to negative ESG news might be influenced by industry differences and industry visibility due to varying levels of sensitivity and expectations within different sectors (Patten 1991; Pérez et al. 2015). Prior studies classified industries as high or low profile, based on sensitivity to stakeholder pressure for social responsibility (e.g., Hackston and Milne 1996; Reverte 2009). High-sensitivity industries are characterised by greater visibility, high political pressure and concentrated, intense competition (Patten 1991; Roberts 1992; Hackston and Milne 1996). Firms in such industries face more stakeholder pressure to behave ethically because their activities have a higher risk of societal impact (Reverte 2009; Pérez et al. 2015). Industries with higher visibility for social responsibility are often more exposed to media coverage

TABLE 7 | CAR of ESG news based on industry sensitivity.

Panel A: High-sensitivity industry				
	(1)	(2)	(3)	(4)
	Mean CAR (%)			
Event window	All incidents	Higher-reach incidents	Higher-severity incidents	Higher-reach, higher severity incidents
[−1, +1]	−0.11*** (−3.59)	−0.15*** (−3.56)	−0.20*** (−4.68)	−0.19*** (−2.83)
[−2, +2]	−0.14*** (−3.30)	−0.13** (−2.21)	−0.21*** (−3.65)	−0.18** (−2.01)
[−3, +3]	−0.15*** (−3.26)	−0.22*** (−3.42)	−0.16** (−2.38)	−0.25** (−2.35)
<i>n</i>	22,774	12,605	9186	4425
Panel B: Low-sensitivity industry				
[−1, +1]	−0.05* (−1.70)	−0.13*** (−3.51)	−0.04 (−0.85)	−0.18*** (−2.90)
[−2, +2]	−0.04 (−1.18)	−0.13** (−2.99)	−0.03 (−0.56)	−0.13* (−1.83)
[−3, +3]	−0.09** (−2.22)	−0.15*** (−2.96)	−0.04 (−0.65)	−0.17** (−2.00)
<i>n</i>	21,637	13,637	7758	3935

Note: This table shows CAR of ESG news based on industry profile. Panel A shows results for firms in a high-sensitivity industry and Panel B for firms in a low-sensitivity industry. High-sensitivity industries are more publicly visible and under more pressure/scrutiny for social responsibility (e.g., energy, chemicals). Appendix A shows the detailed classification of high- and low-sensitivity industries. Column 1 includes all ESG incidents, Column 2 includes incidents that are higher reach, Column 3 includes incidents that are higher severity, Column 4 includes incidents that are both higher reach and higher severity. The *t*-statistics are in parenthesis.

***, ** and * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

and public scrutiny. Firms operating in these industries are more susceptible to swift market responses to news. For instance, firms in industries with a more environmental focus (e.g., oil and gas) may be more affected by negative environmental news than firms in other sectors (e.g., financials).

Following prior studies, we categorize firms according to whether they operate in high- or low-sensitivity industries (specifically in relation to social responsibility) (see Appendix A for the detailed classification). Panels A and B of Table 7 show the stock market reactions to ESG news by industry sensitivity. The negative stock market reaction is more pronounced for firms in high-sensitivity industries than for those in low-sensitivity industries. This suggests that media and public attention amplify the impact of negative ESG news in industries with higher visibility.

4.3.5 | Does Novelty Matter?

In another test, we also explore whether the newness of the incident matters to investors. More precisely, we examine stock price reactions to negative ESG news when a firm experiences such an incident for the first time and when it is associated with a repeat incident on the same issue. Results in Table 8 show that the stock market reaction is more negative for first-time incidents compared to repeat incidents, indicating more financial uncertainty of initial ESG risk exposure. When a company experiences its first ESG incident, it signals to investors that there might be previously unrecognized risks associated with the firm, leading to a reassessment of the company's future profitability and potential risk. This often results in a sharper immediate stock price decline. On the contrary, subsequent incidents may have a diminished impact as they confirm existing concerns and reflect a persistent issue, for which investors might have already adjusted their expectations based on perceived risks of prior occurrences. Therefore, the market reaction tends to be less severe for repeat incidents as the element of surprise is reduced and as the perceived risk is already somewhat integrated into the stock price.

TABLE 8 | CAR of ESG news by novelty.

Event window	(1)	(2)
	Mean CAR (%)	
	First time	Reoccurring
[−1, +1]	−0.09** (−2.55)	−0.08*** (−2.81)
[−2, +2]	−0.11** (−2.39)	−0.08** (−2.25)
[−3, +3]	−0.14*** (−2.78)	−0.11*** (−2.81)
<i>n</i>	18,886	25,973

Note: This table shows CAR of ESG news by novelty for full sample. We estimate abnormal return using the market model. Novelty indicates newness of the incident to the firm, which is for the first time or reoccurring (repeat). The *t*-statistics are in parenthesis.

*** and ** indicate statistical significance at the 1% and 5% levels, respectively.

TABLE 9 | CAR of ESG news (Fama–French/Carhart 4 factor model).

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Mean CAR (%)							
	All observations				Material issues			
Event window	All incidents	Higher-reach incidents	Higher-severity incidents	Higher-reach, higher-severity incidents	All incidents	Higher-reach incidents	Higher-severity incidents	Higher-reach, higher-severity incidents
[−1, +1]	−0.11*** (−5.27)	−0.15*** (−5.58)	−0.14*** (−4.59)	−0.22*** (−4.84)	−0.14*** (−3.67)	−0.19*** (−4.33)	−0.17*** (−3.16)	−0.24** (−3.40)
[−2, +2]	−0.12*** (−4.43)	−0.16*** (−4.48)	−0.15*** (−3.93)	−0.23*** (−3.92)	−0.14*** (−3.16)	−0.18*** (−3.07)	−0.16** (−2.41)	−0.21** (−2.18)
[−3, +3]	−0.15*** (−4.91)	−0.20*** (−5.12)	−0.15*** (−3.47)	−0.28*** (−4.22)	−0.21*** (−3.91)	−0.24*** (−3.65)	−0.23*** (−2.85)	−0.33*** (−3.00)
<i>n</i>	44,859	26,493	17,099	8432	17,985	10,786	7311	3988

Note: This table shows CAR of ESG news, using the Fama–French (Carhart) 4 factor model. Left side shows all observations of ESG incidents, including both material and nonmaterial issues. Right side shows observations of ESG incidents which are financially material only. Columns 1 and 5 include all ESG incidents, Columns 2 and 6 include incidents that are higher reach, Columns 3 and 7 include incidents that are higher severity, Columns 4 and 8 include incidents that are both higher reach and higher severity. The *t*-statistics are in parenthesis.

*** and ** indicate statistical significance at the 1% and 5% levels, respectively.

4.4 | Additional Robustness Tests

4.4.1 | Alternate Event Study Method

To ensure that our results are reliable and generalisable, we conduct additional robustness tests. We redo our event study using the Fama–French 4-factor (Carhart) model. The Fama–French 4-factor model enhances the outcome of event studies by accounting for additional sources of risk beyond the traditional event study model. Apart from market, size and value factors, this model additionally incorporates the momentum factor. Thus, the Fama–French 4-factor model provides a more comprehensive framework for analysing stock returns in event studies, offering insights into both systematic and idiosyncratic sources of risk and return (El Ghoul et al. 2023). The results are shown in Table 9. Our findings remain broadly the same when we incorporate additional factors in explaining the stock market reaction to ESG news.

4.4.2 | Cross-Sectional Heterogeneity

To address cross-sectional heterogeneity across firms, we also regressed stock returns on the key variables after incorporating control variables. In these regressions, our dependent variable CAR is the cumulative ARs on the event windows $[-1, 1]$. The independent variables across different models are higher severity, higher reach, materiality and the interaction between higher severity and higher reach variables.¹⁵ We use the following control variables in our cross-sectional regression: book-to-market, firm size, leverage, liquidity, profitability and number of equity analysts. We also control for industry, year and month fixed effects (FE). Detailed definitions of these control variables are provided in Appendix A. To mitigate the impact of outliers, we winsorize continuous variables at the 1% and 99% level.

Table 10 shows the results of estimated regression. In all models, we find negative and statistically significant coefficients for

TABLE 10 | Cross-sectional heterogeneity.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Mean CAR (%)						
Higher reach	−0.101** (−2.328)	−0.099** (−2.296)					
Higher severity			−0.115** (−2.528)	−0.118*** (−2.610)			
Materiality					−0.073* (−1.685)		
Higher reach x higher severity						−0.102** (−1.998)	−0.099** (−1.975)
Book-to-market	0.183** (2.042)	0.175 (1.629)	0.188** (2.096)	0.175 (1.637)	0.183** (2.044)	0.186** (2.071)	0.175 (1.632)
Firm size	0.083*** (4.904)	0.088*** (4.302)	0.084*** (4.942)	0.090*** (4.351)	0.081*** (4.788)	0.084*** (4.916)	0.089*** (4.323)
Leverage	0.441** (2.460)	0.545*** (2.708)	0.421** (2.354)	0.537*** (2.670)	0.436** (2.447)	0.431** (2.411)	0.541*** (2.692)
Liquidity	0.108 (0.472)	0.088 (0.289)	0.052 (0.232)	0.075 (0.246)	0.090 (0.398)	0.072 (0.319)	0.082 (0.270)
Profitability	−0.051 (−0.097)	−0.491 (−0.852)	−0.051 (−0.096)	−0.479 (−0.832)	−0.043 (−0.082)	−0.054 (−0.102)	−0.485 (−0.843)
Analysts	0.000 (0.001)	−0.019 (−0.542)	−0.000 (−0.014)	−0.020 (−0.576)	0.001 (0.034)	−0.000 (−0.004)	−0.020 (−0.555)
Year and month FE	YES	YES	YES	YES	YES	YES	YES
Industry FE	NO	YES	NO	YES	NO	NO	YES
Observations (<i>n</i>)	41,007	41,007	41,007	41,007	41,007	41,007	41,007
<i>R</i> ²	0.010	0.014	0.010	0.014	0.010	0.010	0.014

Note: This table shows cross-sectional regressions estimated for the impact of negative ESG news on CARs. The dependent variable is cumulative abnormal return. Appendix A provides detailed definitions of the variables. The *t*-statistics are in parentheses based on robust standard errors, clustered at the firm level.

***, ** and * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

our variables of interest. These results are consistent with prior findings and suggest that our results are not driven by firm-level heterogeneity.

5 | Conclusions

We contribute to the ongoing debate about the relevance of ESG performance for investors. We find significant and negative reactions to news of ESG misconduct. The negative reactions to ESG news highlight the growing awareness and concern among investors regarding a firm's ESG practices. The effect is more pronounced when such news is reported in more influential sources or the incident is more severe in nature. The stronger reactions to news reported in influential sources and regarding severe incidents suggest that the credibility and perceived gravity of the information significantly influence investors' decision-making process.

We also provide evidence that financial materiality is an important issue for ESG performance, as investors react more negatively when the negative ESG news has a financially material impact on the firm. Our findings also provide evidence on stock market concern for violating SDGs, which suggests the importance of aligning corporate practices with broader sustainability goals and reflecting investors' recognition of the long-term risks and opportunities associated with sustainable development.

Furthermore, the study reveals industries under greater public scrutiny and those with higher expectations of social responsibility termed as 'high-sensitivity' industries experience more pronounced negative impacts from ESG-related incidents. This emphasises the importance for firms in such sectors to proactively manage their ESG risks and maintain robust ESG practices to mitigate potential reputational damage and financial impacts.

Overall, our findings support the studies reporting the concern of investors about sustainable business practices in the context of ESG. Our findings have important practical implications, as they show the concern of investors for poor ESG performance which, thus, endorses managerial policies on better ESG practices. Companies must not only comply with financial regulations but also align their operations with broader societal and environmental expectations to maintain investor confidence and mitigate financial risks. The insights from this study can guide investors in evaluating the ESG risks associated with their portfolios, encourage companies to prioritise sustainable practices, and inform policymakers about the market's response to ESG disclosures, thereby fostering a more transparent and responsible business environment.

However, our study focuses on only short-term market reactions using an event study framework. While this approach provides strong identification of the informational value of negative ESG news, it does not account for longer-term adjustments in firm valuation or potential delayed market responses. Future research could build on our findings by examining the persistence of these effects over longer horizons and exploring cross-sectional heterogeneity in investor reactions across firms, countries and institutional settings.

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Endnotes

- ¹ See: <https://www.bloomberg.com/company/press/global-esg-asset-s-predicted-to-hit-40-trillion-by-2030-despite-challenging-environment-forecasts-bloomberg-intelligence/>.
- ² See article, 'Exxon takes on California in legal battle that could shape US climate disclosure,' by Oliver Balch, published on *Reuters* (published April 2026).
- ³ See article, 'Revealed: 50 million Facebook profiles harvested for Cambridge Analytica in major data breach,' by Carole Cadwalladr and Emma Graham-Harrison, published on *the Guardian* (published March 2018).
- ⁴ The United States (US) provides an ideal setting for the study due to more mature market, major shareholding by institutional investors, significant socially responsible investment and more media coverage (Wong and Zhang 2022).
- ⁵ As of August 2022, the International Sustainability Standards Board (ISSB) of the IFRS Foundation took responsibility for the SASB Standards.
- ⁶ All incidents refer to the full sample of ESG incidents, including all levels of reach and severity.
- ⁷ It indicates the media where the ESG incident was published or reported. Reputable sources are established media outlet, which has broader readership and credibility, e.g., the BBC, CNN, *Financial Times* or *New York Times*. On the other hand, low influence source is local media or blogs.
- ⁸ Severity mainly indicates consequence and extent of impact resulting from an incident. For example, explosion in chemical plant has severe impact, leading to injury or death and legal action. The extent of the impact is greater as it will affect large number of people and also the environment.
- ⁹ See article, 'Bhopal's tragedy has not stopped: the urban disaster still claiming lives 35years on,' by Hannah Ellis-Petersen, published on *the Guardian* (published December 2019).
- ¹⁰ Some other studies also reported more pronounced negative stock price reaction for more severe ESG incident (see e.g., Hill and Schneeweis 1983; Capelle-Blancard and Laguna 2010; Nelson et al. 2008).
- ¹¹ Note that the RepRisk does not provide raw media data. Moreover, the RepRisk does not duplicate news on the same issue. Each news article is included only once in the database, unless there are new major developments in the news.
- ¹² Available at <https://mba.tuck.dartmouth.edu/pages/faculty/ken.french/>.
- ¹³ Although RepRisk provides global coverage, we restrict the sample to US listed firms due to more matured market and information efficiency, with a strong presence of institutional investors who are more likely to incorporate ESG-related information into pricing. Moreover, US has more media coverage that is both highly regulated and widely disseminated, enhancing the credibility and relevance of ESG news signals used in this study.
- ¹⁴ See the full list of RepRisk classified 28 ESG issues here: <https://www.reprisk.com/media/pages/static/2738025864-1721423029/repri-sk-esg-issues-definitions.pdf>.

¹⁵ Higher reach is an indicator variable for news source influence that equals one if the level is 2 or 3, and zero otherwise. Higher severity is an indicator variable for the extent of consequences that equals one if the level is 2 or 3, and zero otherwise. Materiality is an indicator variable that equals one if the ESG incident news is financially material according to the SASB industry-specific materiality framework, and zero otherwise. Higher reach $\times$ higher severity is an interaction term indicating when ESG incident news has both higher reach and higher severity.

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Appendix A: Data Definitions

This table provides definitions of the variables and data used in our analysis.

Variable	Data definition
CAR	Cumulative abnormal return over ESG incident event window.
Abnormal return (AR)	Abnormal return on the event day.
Reach	The influence of a news source based on readership/circulation as well as its importance in a specific country. Reach has three levels as: 1(limited or low), 2 (medium) and 3 (high). We define 'higher reach' when the levels are 2 and 3. Higher-reach sources include national and regional media, international NGOs, state, national and international government bodies and a few of the international media – e.g., the BBC, <i>NY Times</i> , <i>FT</i> .
Severity	Severity of an incident based on its consequences, extent and cause. Severity has 3 levels as: 1(low), 2 (medium) and 3 (high). We define higher severity when the levels are 2 and 3.
Novelty	Newness of the incident. RepRisk identifies whether it is the first time a company/project is exposed to a specific ESG Issue.
Materiality	Any information that would significantly impact the investor's decision, based on the classification of the Sustainability Accounting Standards Board (SASB).
High-sensitivity industry	High-sensitivity industries are more publicly visible and under more pressure/scrutiny for social responsibility. The following industries classified as high-sensitivity industries: Energy, Utilities, Chemicals, Oil and Gas, Metal, Coal and Mining, Automobile, Paper and Forest Products, Industrials and Transportation.
Low-sensitivity industry	Low-sensitivity industries are less publicly visible and under less pressure/scrutiny for social responsibility. The following are classified as low-sensitivity industries: Financials, Consumer Goods, Food and Beverages, Retailer, Textile and Apparel, Academic Services, Media and Publishing, Telecommunication and Networking, Hotels and Real Estate.
Book-to-market	Book value of equity over market value of the equity.
Firm size	Natural logarithm of market capitalisation.
Leverage	Long term debt over total assets.
Liquidity	Cash plus short-term investments over total assets.
Profitability	Net income after tax scaled by total assets.
Analysts	Natural logarithm of the number of equity analysts.