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ESG Disclosure, Agency Costs, and Firm Value: Evidence from Digital Transformation in Emerging Markets

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ABSTRACT

This study explores the relationship between ESG disclosure, agency costs, and firm value, with a focus on the moderating role of digital transformation in emerging markets. Using a qualitative approach and employing literature review and library research methods, the study synthesizes findings from a range of scholarly articles to provide insights into how ESG disclosures impact agency costs and firm performance. The findings suggest that transparent ESG disclosures help reduce information asymmetry between shareholders and managers, thereby lowering agency costs and enhancing firm value. Moreover, the integration of digital transformation is found to further improve the effectiveness of ESG disclosures by increasing transparency, data accuracy, and governance standards. However, the study also highlights that the effectiveness of ESG reporting varies across markets, with emerging markets facing challenges due to weaker regulatory enforcement and digital infrastructure. The study emphasizes the importance of high-quality ESG disclosure and the role of technology in enhancing corporate governance. Finally, the research calls for further investigation into the role of digital transformation in shaping ESG practices across different market contexts, particularly in emerging economies.

1. Introduction

In recent years, environmental, social, and governance (ESG) disclosure has gained increasing attention as a strategic communication tool that can enhance transparency, accountability, and sustainable performance in firms operating globally (Eccles et al., 2014). Particularly in emerging markets, where institutional voids and governance challenges remain prevalent, ESG disclosure is not merely a compliance mechanism but a signaling tool for legitimacy and investor trust (Amel-Zadeh & Serafeim, 2018). Concurrently, the acceleration of digital transformation has reshaped organizational infrastructures, managerial behaviors, and stakeholder engagement processes, influencing how ESG information is produced, verified, and communicated (Yang et al., 2024). Despite these dynamics, the intersection between ESG disclosure, digital transformation, and its impact on corporate outcomes such as agency costs and firm value remains underexplored.

Agency theory posits that information asymmetry between principals (shareholders) and agents (managers) gives rise to agency conflicts and costs (Jensen & Meckling, 2019). ESG disclosure can function as a mechanism to mitigate such asymmetries by providing credible, non-financial information about the firm's long-term sustainability orientation and ethical governance practices (Mahoney et al., 2013). Prior studies have found that firms with higher ESG transparency tend to exhibit lower agency costs due to enhanced stakeholder monitoring and managerial accountability (Muduli & Mahadik, 2024). However, these findings are predominantly derived from developed markets, where disclosure standards are institutionalized, and digital infrastructure is more advanced. In contrast, emerging markets present unique contextual factors such as weaker investor protections, limited enforcement, and digital disparities, making the efficacy of ESG disclosure less predictable (Krueger et al., 2024).

The advent of digital transformation—characterized by the integration of digital technologies across business operations—introduces new governance challenges and opportunities in managing ESG strategies (Sebastiao & Golicic, 2008). On one hand, digital tools such as blockchain, big data analytics, and cloud computing can enhance ESG disclosure quality by improving data accuracy, traceability, and real-time monitoring (Mosteanu & Faccia, 2020). On the other hand, digitalization may amplify complexity in organizational structures and increase the risk of opportunistic managerial behavior, thereby raising agency costs if not properly governed (Aben et al., 2021). This duality raises a critical question: Does digital transformation reinforce or dilute the effectiveness of ESG disclosure in reducing agency costs and enhancing firm value in emerging markets?

Despite increasing interest in ESG and digitalization independently, very few empirical studies have integrated these domains to assess their joint impact on agency costs and firm value. Prior research has mostly examined ESG disclosure as a linear predictor of firm value or operational efficiency, without considering the moderating role of digital transformation (Alareeni & Hamdan, 2020; Fatemi et al., 2018). Moreover, studies focusing on emerging markets are sparse, often neglecting the unique institutional and technological constraints that shape ESG practices and governance outcomes (Almubarak et al., 2023). This gap indicates a significant need to examine the contingent relationship between ESG disclosure and firm performance through the lens of agency theory, with digital transformation as a critical contextual variable.

The novelty of this study lies in its theoretical and empirical integration of ESG disclosure, agency theory, and digital transformation within the context of emerging markets. By developing a moderated mediation model, this research investigates how ESG disclosure affects firm value indirectly through agency costs, and how digital transformation moderates this indirect effect. Such an approach extends the literature by shifting the focus from ESG as a static disclosure tool to a dynamic governance mechanism that interacts with technological capabilities. Furthermore, this study contributes to the ongoing discourse on digital corporate governance by empirically examining how digital maturity shapes the effectiveness of ESG communication in reducing information asymmetry and aligning managerial incentives.

The primary objective of this study is to analyze the relationship between ESG disclosure and firm value, and to assess the mediating role of agency costs and the moderating influence of digital transformation in this relationship. The context of emerging markets is particularly critical, as these economies face distinct governance and technological challenges that can alter the ESG-performance nexus. By leveraging a sample of publicly listed firms from selected emerging economies over the last decade, this study aims to generate robust empirical evidence that can inform policy-making, investment strategies, and corporate governance reforms in these markets.

This research is expected to offer multiple contributions. Theoretically, it extends agency theory by incorporating ESG disclosure and digital transformation as complementary governance mechanisms. Empirically, it provides novel insights into the contingent impact of ESG disclosure on firm value in settings marked by institutional volatility. Practically, the findings may guide managers, regulators, and investors in emerging markets to design more effective ESG and digital governance frameworks that align managerial actions with long-term stakeholder interests.

ESG (Environmental, Social, and Governance)

Environmental, Social, and Governance (ESG) refers to the three key areas of concern for businesses in their interactions with the environment and society. ESG has emerged as a crucial framework that investors, policymakers, and stakeholders use to evaluate corporate behavior beyond traditional financial metrics (Eccles et al., 2014). The "Environmental" aspect concerns a company's environmental impact, such as energy usage, carbon emissions, waste management, and resource conservation, aiming to minimize ecological footprints (Selcuk & Kiymaz, 2017). The "Social" dimension deals with the company's relationships with its employees, customers, suppliers, and the communities in which it operates, focusing on issues such as labor standards, human rights, and customer satisfaction (Ioannou & Serafeim, 2015). Finally, the "Governance" aspect involves the structure of corporate leadership, shareholder rights, executive compensation, and internal controls, which directly impact the firm's decision-making and risk management practices (Jensen & Meckling, 2019). As corporate sustainability gains prominence, companies are increasingly held accountable for their ESG performance, which has been shown to influence firm reputation, investor behavior, and long-term value creation (Friede et al., 2015). ESG disclosure, thus, not only serves as a strategic communication tool but also acts as a signal to investors regarding the company's commitment to sustainability and ethical practices.

Agency Costs

Agency costs refer to the economic costs incurred due to conflicts of interest between shareholders (principals) and managers (agents). This concept originates from agency theory, which assumes that managers may not always act in the best interests of the shareholders due to differing incentives (Jensen & Meckling, 2019). Agency costs manifest in two forms: direct costs, such as the expenses related to monitoring managerial actions, and indirect costs, which result from managerial decisions that may not align with the firm's long-term value maximization (Fama & Jensen, 1983). High agency costs can arise when managers pursue personal objectives, such as short-term performance or excessive executive compensation, at the expense of shareholder wealth (Moez, 2024). ESG disclosures have been identified as a tool to mitigate agency costs by enhancing transparency and aligning managerial actions with long-term shareholder interests. By providing clear information on a firm's environmental, social, and governance practices, ESG disclosure can reduce information asymmetry, fostering better monitoring and accountability (Dhaliwal et al., 2011). In this context, ESG reporting serves as a mechanism to reduce the agency problem by signaling corporate commitments to ethical practices and long-term sustainability, thus aligning managerial behavior with the interests of shareholders.

Firm Value

Firm value, typically defined as the market value of a company, is a central concept in corporate finance and is often used as a key performance indicator (KPI) for assessing a company’s financial health and growth prospects (Rappaport, 1986). It is determined by various factors, including profitability, growth potential, and risk, which are ultimately reflected in the company’s stock price. The relationship between ESG disclosure and firm value is complex and multifaceted. On one hand, firms with high ESG ratings are often perceived by investors as more stable, ethical, and forward-looking, which can enhance their reputation and lead to increased investor confidence (El Ghoul et al., 2011). Moreover, companies that prioritize sustainability and governance practices may be better positioned to manage long-term risks and capitalize on emerging opportunities (Clark et al., 2015). On the other hand, some studies argue that ESG disclosures, especially in the absence of rigorous verification, may be seen as "greenwashing" or merely a strategic marketing tool rather than a genuine commitment to sustainability (Yu et al., 2020). Therefore, the impact of ESG on firm value is contingent upon the quality of the disclosure and the sincerity of corporate actions. Additionally, digital transformation has emerged as a significant factor influencing the relationship between ESG and firm value. Digital tools and platforms enable firms to improve the accuracy, transparency, and real-time reporting of ESG metrics, thereby potentially enhancing their value proposition in the eyes of investors (Mosteanu & Faccia, 2020).

2. Methodology

This study adopts a qualitative research approach, specifically a literature review methodology, to examine the interrelationships between ESG disclosure, agency costs, and firm value within the context of digital transformation in emerging markets. A literature review is particularly suitable for synthesizing existing research, identifying gaps, and providing theoretical insights into complex phenomena that have not been extensively studied together (Tranfield et al., 2003). The primary objective of this review is to critically evaluate and integrate relevant academic and empirical studies from various disciplines, including finance, corporate governance, sustainability, and digitalization, to form a comprehensive understanding of the topic.

Sources of Data

The data for this study is sourced primarily from academic journals, books, working papers, and industry reports. Specifically, scholarly articles published in peer-reviewed journals related to ESG, agency theory, digital transformation, and firm performance were identified and analyzed. The selection of articles followed a systematic search process using online databases such as Google Scholar, JSTOR, ScienceDirect, and Scopus. Keywords such as "ESG disclosure," "agency costs," "firm value," "digital transformation," and "emerging markets" were used to gather relevant publications from both theoretical and empirical studies. These sources provide valuable insights into the theoretical frameworks, empirical findings, and methodological approaches used in prior research, which are essential for understanding the interdependencies and mechanisms at play in the context of the study.

Data Collection Technique

The data collection for this literature review is based on a systematic and comprehensive search strategy. Initially, articles published between 2000 and 2023 were considered to ensure the inclusion of the most recent and relevant studies in the field. The criteria for selecting the studies included relevance to the research questions, credibility of the journals, and the presence of empirical or theoretical analyses that address ESG disclosure, agency costs, and firm value in emerging markets. Articles were selected based on their ability to contribute to understanding the dynamics of ESG disclosure and its relationship with firm performance and governance practices. A snowball sampling technique was also employed to identify additional references from the bibliographies of the selected articles, ensuring a thorough exploration of existing literature (Fink, 2019).

Data Analysis Method

The data analysis in this study involves a thematic analysis of the collected literature. Thematic analysis is a widely used qualitative data analysis method that enables researchers to identify, analyze, and report patterns or themes within the data (Braun & Clarke, 2006). In this study, thematic analysis was applied to categorize the findings from the selected studies into distinct themes that highlight the relationships between ESG disclosure, agency costs, and firm value. The key themes explored in this analysis include the role of ESG disclosures in reducing agency costs, the impact of digital transformation on corporate governance and transparency, and the overall effect of ESG on firm value in emerging markets. This approach allows for a deeper understanding of the underlying mechanisms and provides a clear framework for synthesizing existing knowledge.

Furthermore, a conceptual framework is developed from the literature to visually represent the relationships between ESG disclosure, agency costs, and firm value. This framework also incorporates the moderating role of digital transformation, providing a comprehensive view of the study's focus. The analysis of the literature will be presented thematically, highlighting convergences and divergences in the existing studies, with an emphasis on the implications of these findings for future research and practice in emerging market contexts.

3. Result and Discussion

The table presented below summarizes the 10 articles that were selected as part of the literature review in this study. These articles were chosen after a systematic screening process from a larger pool of relevant research. They address various aspects of ESG disclosure, agency costs, firm value, and digital transformation, specifically focusing on their interrelationships within the context of emerging markets.

No	Author & Year	Title	Findings
1	El Ghoul et al. (2021)	The Impact of Corporate Social Responsibility on Firm Performance: Evidence from the UK	CSR activities positively impact firm performance, with stronger effects for firms with higher ESG scores; ESG disclosure enhances investor confidence.
2	El Ghoul et al. (2021)	Does Corporate Social Responsibility Affect the Cost of Capital?	CSR disclosure is associated with a lower cost of capital as firms with better CSR performance face less risk and higher investor trust.
3	Brennan et al. (2022)	The Role of Digital Transformation in Corporate Governance	Digital transformation improves governance by enhancing transparency and accountability, but introduces new digital risk management challenges.
4	Fatemi et al. (2018)	ESG Disclosure and Firm Value: A Systematic Review	ESG disclosures improve firm value by increasing trust and reducing agency costs; the quality of disclosure is crucial.
5	Dhaliwal et al. (2011)	Voluntary Nonfinancial Disclosure and the Cost of Equity Capital	Non-financial disclosures, including ESG reporting, can lower the cost of equity, especially with transparent sustainability practices.

No	Author & Year	Title	Findings
6	Lundgren et al. (2021)	Corporate Governance and Sustainability: A Systematic Review	Strong corporate governance is positively correlated with sustainable practices and contributes to long-term value creation.
7	Clark et al. (2015)	Sustainability and Corporate Social Responsibility: Impact on Business Performance	Firms integrating sustainability and CSR outperform peers financially and non-financially.
8	Walker & Wan (2012)	The Relationship Between Corporate Social Responsibility and Firm Innovation	CSR engagement fosters innovation by promoting ethical culture and long-term planning, attracting investors and talent.
9	Gerged et al. (2021)	ESG Reporting and Firm Risk: Evidence from Emerging Markets	ESG reporting mitigates firm risk in emerging markets by improving transparency, though regulatory enforcement remains a challenge.
10	Rao et al. (2022)	ESG Disclosure and Firm Performance: Evidence from Digital Transformation	Digital transformation enhances ESG disclosure, improving transparency and firm value, especially in emerging markets.

This table provides an overview of the articles that form the basis of the literature review. Each article contributes to a deeper understanding of the linkages between ESG practices, agency costs, and firm value, particularly in the context of emerging markets and the digital transformation process.

Interpretation of Data

The literature review findings highlight several key insights regarding the relationship between ESG disclosure, agency costs, and firm value, particularly in the context of digital transformation and emerging markets. A significant number of studies emphasize the positive role of Corporate Social Responsibility (CSR) and ESG disclosure in reducing agency costs and enhancing firm performance. For instance, Basuony et al. find that CSR activities positively affect firm performance, particularly for firms with strong ESG scores, which enhance investor trust and reduce the information asymmetry typically associated with agency conflicts (Basuony et al., 2014). Similarly, Dhaliwal et al. argue that voluntary ESG disclosures can lower the cost of equity capital by reducing perceived risk, which aligns with agency theory by reducing the information gap between managers and shareholders (Dhaliwal et al., 2011).

Furthermore, the role of digital transformation in improving corporate governance and transparency emerges as a recurring theme. Studies such as those by Peng Yang suggest that digital transformation enhances the quality of ESG disclosures by improving transparency, traceability, and real-time reporting (Yang et al., 2024). This, in turn, mitigates agency costs by fostering greater managerial accountability and reducing the opportunity for opportunistic behavior. However, digitalization also presents new governance challenges, including the risk of data privacy concerns and the complexity of managing large-scale technological systems (Vial, 2021). Despite these challenges, the overall consensus is that digital transformation can act as a catalyst for improving firm value by enhancing both ESG disclosure and corporate governance practices.

The studies also underscore the variability of ESG impacts across different markets. While ESG disclosure is generally viewed as a value-enhancing tool, its effectiveness is more pronounced in developed markets with stronger institutional support and regulatory frameworks. In emerging markets, ESG disclosures have been shown to mitigate firm risk (Lee et al., 2024), but their effectiveness is often limited by weaker enforcement mechanisms and a lack of standardized reporting practices. Thus, while digital transformation offers significant potential to improve ESG disclosure quality, its full impact on firm value is often contingent upon local institutional and regulatory contexts (Altarawneh et al., 2025).

In summary, the literature consistently indicates that ESG disclosure plays a crucial role in reducing agency costs and enhancing firm value, with the digital transformation serving as an important moderator. However, the extent of these relationships varies by context, particularly between developed and emerging markets, as well as the varying maturity of digital infrastructure. Future research could further explore the mechanisms through which digital transformation specifically affects ESG disclosure and its impact on firm governance in diverse market settings.

Discussion and Analysis

The findings from the literature review clearly underscore the importance of ESG disclosure in enhancing firm performance and reducing agency costs. As observed in studies by Basuony et al. and Dhaliwal et al., ESG disclosure serves as a powerful tool in aligning the interests of managers and shareholders, a core principle of agency theory (Basuony et al., 2014; Dhaliwal et al., 2011). This theory posits that the separation of ownership and control often results in conflicts of interest between principals (shareholders) and agents (managers) (Jensen & Meckling, 2019). ESG disclosure, by improving transparency and reducing information asymmetry, helps mitigate these conflicts and lower agency costs, thereby enhancing firm value. In today's business environment, this aligns with the growing demand for responsible corporate governance and sustainability practices, particularly in light of increasing investor emphasis on non-financial performance metrics such as environmental impact, social responsibility, and governance structures (Eccles et al., 2014).

The current global shift towards more sustainable and transparent business practices further reinforces the importance of these findings. For example, investors are increasingly incorporating Environmental, Social, and Governance (ESG) criteria into their investment decisions, as seen in the growing trend of sustainable finance (Clark et al., 2015). As more companies disclose their ESG practices, stakeholders are better equipped to make informed decisions, reducing the information asymmetry that often leads to higher agency costs. This trend is particularly relevant as institutional investors, such as pension funds and sovereign wealth funds, are pressing companies to improve their ESG practices (Amel-Zadeh & Serafeim, 2018). In this context, the findings of this study are highly pertinent, demonstrating that ESG disclosure does not only have a moral or ethical value but also a tangible financial benefit for firms in the form of lower capital costs and higher market valuation.

The role of digital transformation in facilitating enhanced ESG disclosure and governance, as discussed in the studies by Brown et al., is another crucial aspect that is highly relevant today (Brown et al., 2024). In the age of big data, artificial intelligence (AI), and blockchain, digital tools are significantly improving the accuracy, traceability, and real-time reporting of ESG data, as noted in the study by Alhalwachi et al. (Alhalwachi et al., 2025). Digital transformation, therefore, can be seen as a double-edged sword: while it offers tremendous opportunities to enhance transparency and reduce agency costs, it also introduces new risks associated with data privacy, cyber threats, and technological dependence (Tagarev et al., 2021). This is particularly important as companies in emerging markets may not yet have the necessary digital infrastructure to fully leverage the benefits of digital transformation in ESG disclosure (Dayanandan et al., 2024). Moreover, the effectiveness of digital transformation in improving ESG practices is often constrained by regulatory environments and institutional support. In emerging markets, where institutional frameworks are weaker and ESG regulations are less stringent, the impact of digital tools may be limited, leading to discrepancies between ESG intentions and actual performance (Kumar & Kakran, 2023).

These findings prompt several important considerations for corporate leaders and policymakers. Firstly, it is clear that ESG disclosure is no longer a niche activity for socially responsible companies but a mainstream strategy that can enhance firm value by reducing agency costs and improving stakeholder trust. However, the quality of ESG reporting remains a critical factor; simply disclosing ESG information without a clear commitment to sustainability goals may lead to accusations of greenwashing, a practice that undermines the credibility of ESG disclosures (Yu et al., 2020). Secondly, the role of digital transformation in ESG disclosure is vital, but it requires careful management to ensure that the adoption of digital tools enhances, rather than complicates, corporate governance. It is crucial that companies, particularly in emerging markets, build the necessary digital infrastructure and regulatory frameworks to fully exploit the potential of digitalization in improving ESG practices.

In conclusion, while the findings suggest that ESG disclosure can effectively reduce agency costs and enhance firm value, particularly when supported by digital transformation, the broader implications for corporate governance require a more nuanced understanding of local contexts. Companies, particularly in emerging markets, must navigate the challenges of digital adoption and regulatory compliance while ensuring that their ESG disclosures are robust, credible, and aligned with their long-term sustainability goals.

4. Conclusion

This study provides a comprehensive review of the relationship between ESG disclosure, agency costs, and firm value, with a particular focus on the moderating role of digital transformation in emerging markets. The findings indicate that ESG disclosure plays a pivotal role in reducing agency costs by enhancing transparency and aligning the interests of shareholders and managers, thus contributing to improved firm performance. Furthermore, the integration of digital transformation is shown to amplify the effectiveness of ESG disclosure, enabling real-time reporting, greater data accuracy, and enhanced corporate governance. However, the study also highlights that the impact of ESG disclosure and digital transformation is context-dependent, with emerging markets facing challenges related to regulatory enforcement and digital infrastructure. These results suggest that while ESG disclosure can offer significant benefits in terms of reducing agency costs and enhancing firm value, the extent of these benefits is contingent upon the quality of the disclosures and the technological and regulatory maturity of the market in which the firm operates.

Recommendations for Future Research

Future research should further investigate the specific mechanisms through which digital transformation enhances ESG disclosure and its impact on agency costs and firm value in various industry contexts. A comparative study between developed and emerging markets could provide deeper insights into the institutional factors that influence the effectiveness of ESG reporting and digitalization. Additionally, exploring the role of regulatory frameworks and technological maturity in shaping ESG practices in emerging markets could offer valuable contributions to the ongoing discourse on sustainable corporate governance. Lastly, longitudinal studies examining the long-term effects of digitalized ESG disclosures on firm value and agency costs could provide more conclusive evidence on the sustainability of these practices over time.

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