

Abstract

Corporate scandals involving corruption, pollution or human exploitation have highlighted the importance of firms Environmental, Social and Governance (ESG) performance. Investors are concerned with the ESG performance of firms, in terms of ESG ratings, as it impacts investors financially. There are many ESG rating systems available, yet investors are unsure of the link between these different ratings and firm performance. South Africa, with its developing economy, offers a unique setting to test this link as it is globally recognised as a pioneer in the ESG field by developing and implementing sophisticated ESG systems. As such, South Africa transitioned between two distinct rating systems which assessed all listed firms. This paper extends the literature, by analysing the evolution of the ESG rating systems in South Africa and offering new interpretations of this link in an emerging economy context. Based on the thematic analysis using newspaper articles in combination with quantitative analysis using both ESG ratings and firm performance data, this study found that ESG ratings are evolving to meet the needs of investors, albeit not exhaustively. Investors financial preferences appear fulfilled however the link to direct impacts and specific ESG concerns are not immediately clear, suggesting that ESG ratings can be refined further to meet investor needs.

Keywords: South Africa, ESG ratings, ESG performance