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How Does ESG Performance Impact Stock Price Crash Risk: Evidence from Chinese Listed Firms

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Abstract

ESG (Environmental, Social, and Governance) performance has been increasingly crucial in China's capital market. This study examines the relationship between corporate ESG performance and stock price crash risk among Chinese A-listed companies experiencing underinvestment during 2010-2024. We conduct comprehensive investigations using difference in difference (DID) method and propensity score matching (PSM) method. The findings reveal that strong ESG performance robustly reduces future stock price crash risk in underinvested firms. We argue that good ESG performance, especially in terms of its disclosure dimension, can effectively reduce the degree of information asymmetry. Through comprehensive and transparent ESG disclosure, firms can alleviate the uncertainty faced by external investors regarding their financial conditions, thereby reducing the likelihood of price crashes. Further mechanism tests confirm that ESG performance mitigates crash risk by alleviating underinvestment within inefficient investments. Additionally, heterogeneity analysis using stock price synchronicity as a proxy for market efficiency shows that higher market synchronicity weakens the suppressive effect of ESG performance on crash risk. The findings also survive a series of robustness tests. Our research highlights how market efficiency in information processing influences the stabilizing role of ESG performance on stock prices. This study provides empirical evidence and policy implications for corporate governance, policymakers, and regulators. We also provide potential paths for future research in the related area.

Keywords

ESG, Underinvestment, Stock Price Crash Risk, Stock Price Synchronicity