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The dark side of ESG Ratings – Reliability and Challenges

Iryna Kurz, M.Sc.

October 11th, 2024

iryna.kurz@uni-siegen.de

Agenda

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Introduction

Introduction

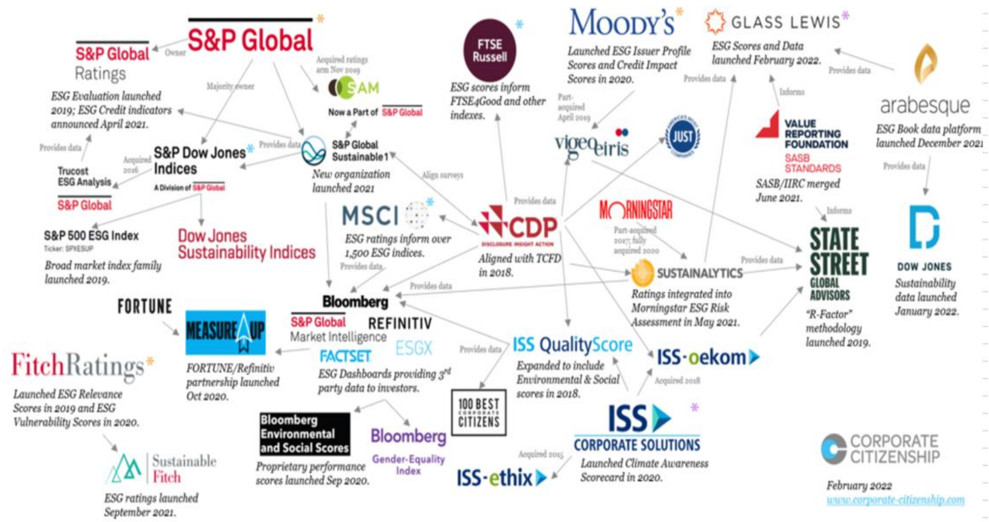
ESG: Three letters are revolutionising the economy

Compared to just 20% in 2011, **85% of companies** in the S&P 500 now report on ESG issues.
(J.P. Morgan, September 2019)

Four out of five **German banks (82%)** consider regulatory **compliance** to be an important ESG goal, while only one in two banks (55%) consider business growth to be an important goal. German banks already offer ESG products such as **green investment loans.** Tapping into the ESG earnings potential of **€7.5bn** annually in German corporate banking requires strategic adjustments. (McKinsey Study, May 2024).

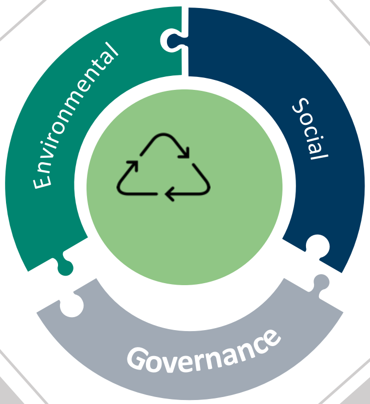
Regulation and standards, e.g. Corporate Sustainability Reporting Directive (CSRD), Sustainable Finance Disclosure Regulation (SFDR), EU-Taxonomie EU Green Deal

It is predicted that ESG-focussed institutional investments will reach a volume of **USD 33.9 trillion by 2026.** *(PWC, 2022)*



Introduction

What is an ESG Rating?



E… deals with the **environmental performance** of a company and provides information on the measures a company takes to make a positive contribution to the environment.

S… assess **community-related aspects, workplace-related topics**, and topics such as involvement in the use of weapons in conflict zones or the extent of a company's social commitment.

G… emphasizes **integrating and communicating ESG dimensions in daily decisions**, including measures to prevent controversies like excessive board remuneration or questionable accounting practices.

A positive ESG rating is seen as an indicator of **sustainable, forward-looking corporate governance and effective risk management** *(Godfrey, 2005; Christensen et al., 2022).*

Introduction

ESG Ratings as a questionable score

Company
- Obtain third-party assessments of companies' ESG initiatives *(Snell, 2024)* to adapt **business models and strategies** (Lee et al., 2022; Serban et al., 2023; Zhou et al., 2022; Bénabou and Tirole 2010; *Hart and Zingales 2017)* and improve **internal and external reporting** *(Neisen et al., 2021)*

Investor
- Investors are increasingly recognising the importance of ESG information for their **portfolio decisions** *(Amel-Zadeh and Serafeim, 2018; Dimson et al., 2020; Berg et al., 2022)*

Bank
- Strong ESG performance helps to reduce **credit risk** *(Mendiratta et al., 2021)*, increase the likelihood of lending *(Rahat and Nguyen, 2023)* and reduce **lending rates** *(Cheung et al., 2018)*

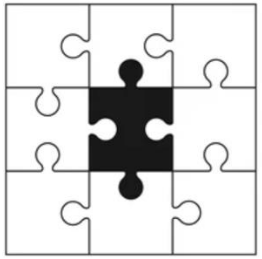
Public scandals
- Temporary removal of **Tesla Inc.** from the S&P 500 ESG Index in 2022 following a downgrade of its sustainability rating
- **Volkswagen**'s inclusion in the Dow Jones Sustainability Index just days before the emissions scandal broke in the US in September 2015

Quantitative studies
- Impact of ESG ratings on **financial performance** *(Chininga et al., 2024)* or **systemic risk** *(Pistolesi and Teti, 2024)*
- Company's ESG characteristics are negatively correlated with the **price-to-book value ratio of their stocks** *(Li, 2023)*
- Relationship between ESG ratings and **executive compensation** *(Tien and Huang, 2023; Zhu et al., 2024)*

Can ESG Ratings be trusted?

Research gap

- Despite the growing importance of ESG ratings in practice and research, **few recent literature reviews critically** examine them and their effects. A **comprehensive assessment of the criticisms is still missing**, and the broader implications for the significance of ESG ratings and their **impact on stakeholders** have not been sufficiently researched.



Motivation

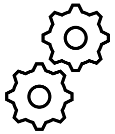
- Systematising existing articles on ESG rating criticism offers **practitioners and academics a structured overview**, helping them respond more effectively. By identifying research gaps and outlining an agenda, this paper supports **further academic development** in the field. The study also **guides regulators, supervisors, and auditors** on where to focus their efforts.

Three main research questions related to the identified research gap and motivation are addressed and answered *(Tranfield et al., 2003; Massaro et al., 2016):*

RQ 1 How has the literature on the critical analysis of ESG ratings envolved over time in terms of content?

RQ 2 What are the areas of criticism of ESG ratings and how does the research deal with them?

RQ 3 Where is the need for further research in the coverage of this research field?



Methodology

Methodology

Systematic Literature Review

- **Effective, high-quality** approach to identifying and evaluating extensive literature *(Mulrow, 1994; Poyser and Daugaard, 2023; Durach et al., 2017; Koufteros et al., 2018).*
- Challenges assumptions, **identifies critical issues and factual errors**, and stimulates future scholarly **discussions** *(Kraus et al., 2022).*

Tranfield et al. (2013):

1. Planning the review
2. Conducting the review
3. Reporting and Dissemination

1.

- How has the literature on the critical analysis of ESG ratings envolved over time in terms of content?
- What are the areas of criticism of ESG ratings and how does the research deal with them?
- Where is the need for further research in the coverage of this research field?

2.

- Key words: “critic“, “ critical“, “ bias“, “quality“
- Databases: Scopus, Web of Science, Emerald Insight, JSTOR, Emerald
- Document types: Only Peer-reviewed article (Massaro et al, 2016), english, no time restriction with regard to publication period
- ABDC Journal Quality List 2022 of the Australian Business Deans Council and in the VHB Rating 2024 of the Association of University Professors of Business Administration with Rating A, A+, B
- Review protocol (May - June 2024)
- inclusion and exclusion criteria
- Topic-centered review
- Download in Excel and BibTex

initial search
- 1,160 articles
- five databases

duplicates
- less 98
- total:1,062

abstract analysis
- less 977
- total: 85

quality cut
- less 16
- total: 67

search backwards
- plus 16
- total: 83

3.

- Presentation of results
- Recommen-dations and implications

Methodology

Bibliometric analyse

- This method enables researchers to pinpoint the most influential journals and articles, **monitor co-authorship networks, examine citation trends, investigate bibliographic couplings,** and chart research streams within specific fields *(Goodell et al., 2023; Khan et al., 2022)*

Donthu et al. (2021):

1. Panning and defining the objective
2. Conception and definition of techniques
3. Collection of Data
4. Conducting and reporting the results

1.

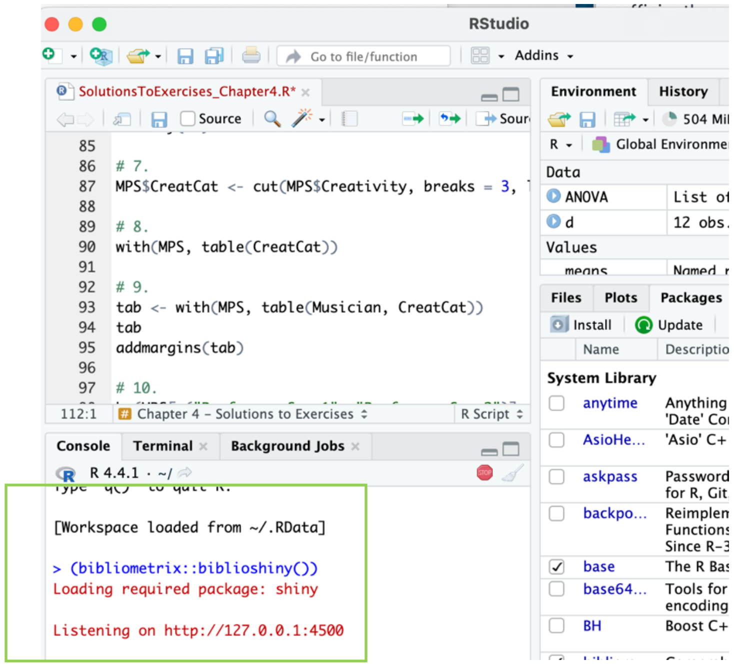
- Retrospective analysis of performance and scientific development of research field
- Drawing attention to an insufficient focus on the critical evaluation of ESG ratings and thus motivating future researchers to further explore this area and develop actionable solutions *(Rabbani et al., 2023).*

2.

- Co-word-analysis : Mapping the conceptual structure of a framework by creating a word co-occurrence network, clustering terms extracted from keywords, titles, or abstracts in a bibliographic collection *(Aria and Cuccurullo, 2017).*
- Predicting future research directions by analysing significant 'words' from the publication's simplifications and proposed future research areas. *(Donthu et al., 2021b).*

2.

- R software Bibliometrix 3.0 with Biblioshiny package
- Covering 92.77% (77 Article) of the SLR sample, with the deviation attributed to the exclusion of journals not indexed in Scopus.



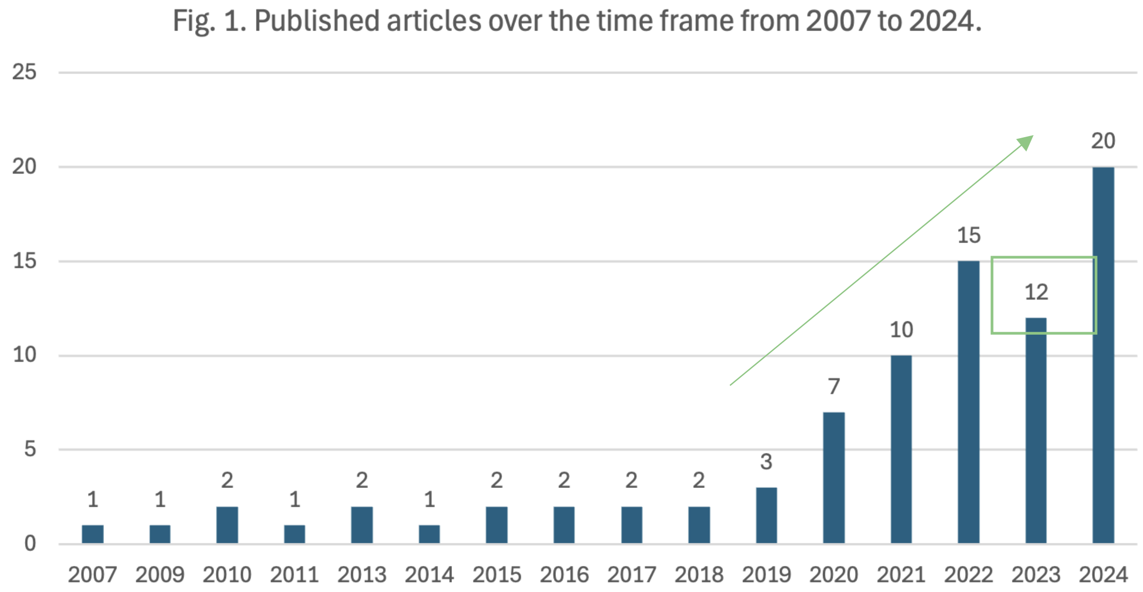
4.

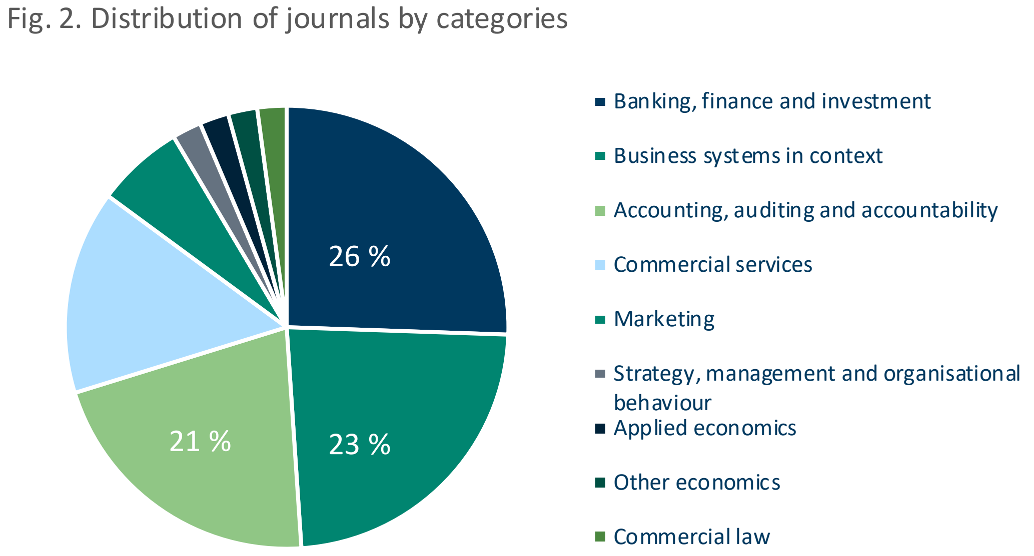
- Conducting bibliometric analysis
- Reporting of results

Results

Results

Bibliometric analysis

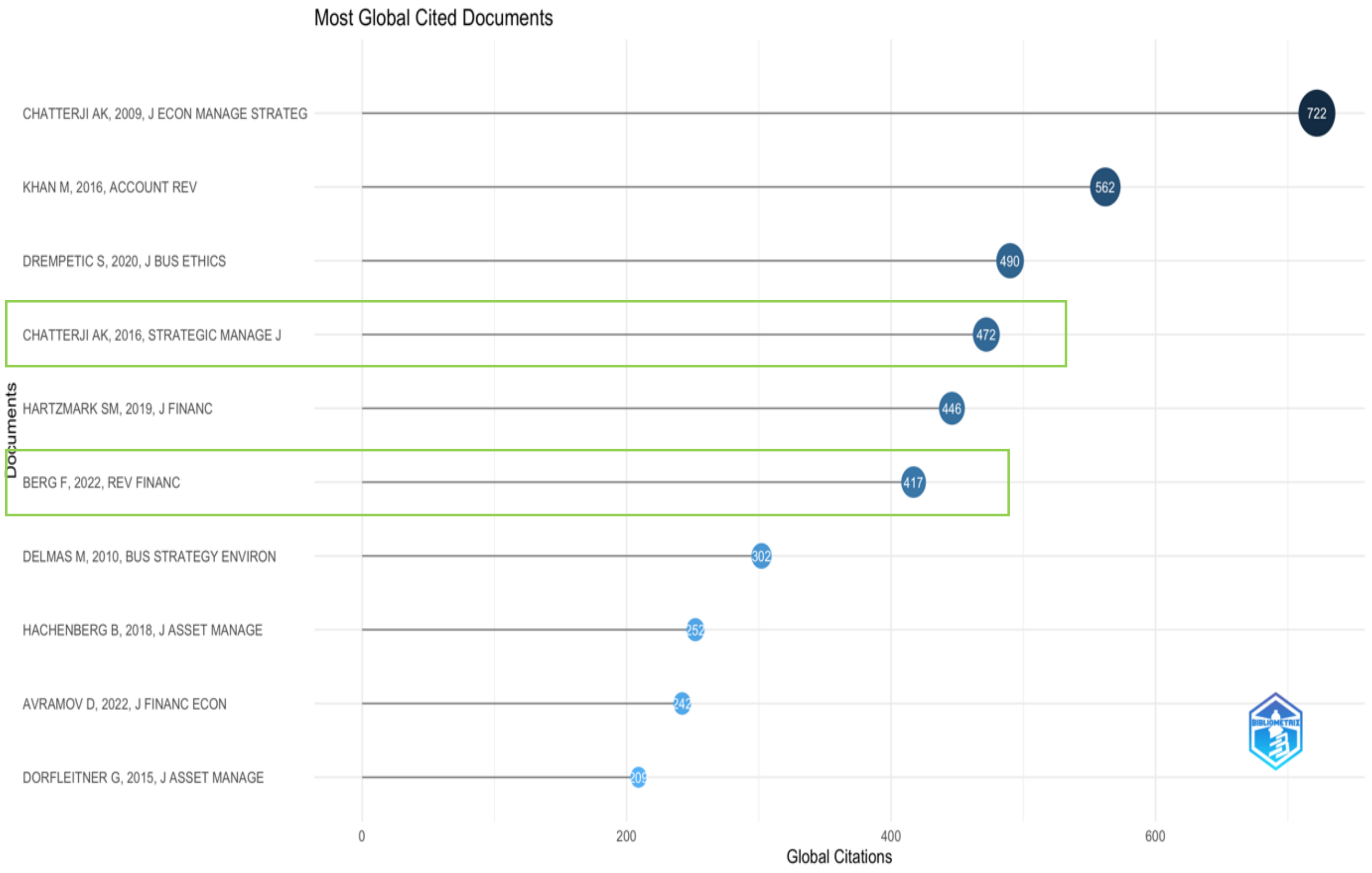




- Chronological development of publications illustrates a **new and emerging field of research** with significant **potential for future research** (Fig. 1)
  - Between **2007 and 2024**, a total **of 83 articles** were published in **52 different journals** (Journal of Business Ethics (9), Journal of Asset Management (8), European Business Organisation Law Review (3)…)
- Clustering based on **Australian Business Deans Council (ABDC) journal quality list** (Fig. 2)
  - Distribution across journals shows that the topic is relevant to **various research fields**

Results
Bibliometric analysis

Table 2. Top 10 citations according to Scopus (Status: August 17, 2024).



- Overview of **10 most frequently cited references** according to the bibliometric analysis.
- Articles dealing with **sustainability and corporate social responsibility** are particularly common. It is also noteworthy that **Chatterji et al. (2016) and Berg et al. (2022)** have received a lot of attention in the literature with their discussions on the convergence and divergence of ESG ratings.

Results

Bibliometric analysis

Table 1. Most frequent keywords according to Scopus.

Table 3

Top 10 - most frequent keywords according to Scopus

Author keywords (DE)	Frequency
esg	18
corporate social responsibility	15
sustainability	12
esg ratings	9
climate change	5
corporate social performance	5
csr	5
environmental	5
esg rating	5
corporate governance	4
esg investing	4
firm value	4
governance	4
machine learning	4
social	4
esg rating disagreement	2
rating disagreement	2
esg rating divergence	1
greenwashing	1
corruption	1
csr scandals	1

Fig. 3. Most 30 - Word cloud author-keywords.

- The list of keywords most frequently used by the authors shows that **terms criticising ESG ratings are present but not predominant**. In particular, terms such as **disagreement, divergence** and **manipulation** are mentioned, while other critics are absent.
- The bibliometric analysis shows that although the critical examination of ESG ratings has **entered the research landscape**, it is still at an early stage. Future researchers are likely to be encouraged to explore this area further.

Results

Systematic Literature Review

Standardisation	Information asymmetry	Institutional background
Disagreement	Manipulation	Geographical and industrial differences
Divergence	Transparency	Bias and Misstatement

- Content analysis according to **Mayring's inductive categorisations**
- Overview of the most frequently discussed **9 points of criticism** in the literature (83 articles)
- **Cause-effect-interaction** between criticism

Nr.	Authors	Title	Year	Source title	Standardization	Informations assymetry	Institutional background	geographical and industrial differences	Direct effect				Indirect effect
									Divergence	Disagreement	Transparence	Manipulation	Bias and Misstatement
74	Chatterji, A.K., Levine, D.I. and To	How well do social ratings actually measure corporate social responsibility?	2009	Journal of Economics & Management Strategy							x		x
75	Chelli, M. and Gendron, Y.	Sustainability ratings and the disciplinary power of the ideology of numbers	2023	Journal of Business Ethics			x		x			x	
76	Gibson Brandon, R., Krueger, P.,	ESG rating disagreement and stock returns	2020	Financial Analysts Journal		x			x	x	x		x
77	Dumrose, M., Rink,, S., Eckert, J.	Disaggregating Confusion? The EU Taxonomy and Its Relation to ESG Rating	2024	Finance Research Letters					x				
78	Berg, F., Koelbel, J.F., Rigobon, R	Aggregate confusion: The divergence of ESG ratings	2021	Review of Finance	x				x	x	x		x
79	Dimson, E., Marsh, P., & Staunto	Divergent ESG Ratings.	2021	The Journal of Portfolio Management	x					x			x
80	Christensen, D.M., Serafeim, G., S	Why is corporate virtue in the eye of the beholder? The case of ESG ratings	2019	The Accounting Review	x	x			x	x		x	x
81	Abhayawansa, S., & Tyagi, S.	Sustainable investing: The black box of environmental, social, and governance (ESG) ratings	2010	The Journal of Wealth Managemen	x	x		x	x	x	x		x
82	Kotsantonis, S., & Serafeim, G.	Four things no one will tell you about ESG data	2024	Journal of Applied Corporate Finance	x	x					x		x
83	Atta-Darkua, V., Chambers, D., D	Strategies for responsible investing:emerging academic evidence	2024	The Journal of Portfolio Management						x			x
				∑	41	34	13	9	64	31	22	21	33

Results

Systematic Literature Review

Causes

- Standardisation (41 articles)
- Information asymmetry (34 articles)
- Institutional background (13 articles)
- Geographical and industrial differences (9 articles)

STANDARDISATION

- Research is highly critical of this **lack of standardisation** *(Gangi et al., 2022; Boiral et al., 2021; Juddoo et al., 2023).*
- Lack of consistent framework with **clear and standardised guidelines and definitions** *(Guo et al., 2024; Del Vitto et al., 2023; Hartzmark and Sussman, 2019; Berg et al., 2022; Chatterji et al., 2016; Dimson et al., 2020; Dorfleitner et al., 2015).*
- This inconsistency, especially in **data processing**, contributes to the opacity of the rating process (*Abhayawansa and Tyagi, 2021).*

INFORMATION ASYMMETRIE

- Despite updates to ESG disclosure guidelines in some countries, the **framework remains inconsistent** *(e.g. Kimbrough et al., 2024; Zou et al., 2023; Hitchcox et al., 2011)*
- Use of **different data sources** by rating agencies *(Billio et al., 2021).*
- Incomplete **availability of data** *(Delmas and Blass, 2010; Drempetic et al., 2019)* and, in particular, access to **insider information** *(Stubbs and Rogers (2013)*
- Impairment due to the **quality of available ESG data** *(Stubbs and Rogers, 2013),* e.g. inaccuracies in raw data from third-party sources *(Nieto and Papathanassiou, 2024; Kotsantonis and Serafeim, 2019; Gangi et al., 2022).*
- Variation in the **integrity and thoroughness of information** gathering **between rating agencies** and even between **individual analysts** *(Boiral et al., 2021)*
- Inconsistent information structure for external ESG assessments and associated variability reduces the comparability of information and makes **effective data processing difficult** *(Liu et al., 2024; Kimbrough et al., 2024).*

Results

Systematic Literature Review

INSTITUTIONAL BACKGROUND OF RATING AGENCIES

COMPETITION

- **Reluctance to disclose detailed and transparent information** about methods and assessment processes *(Chelli and Gendron, 2013; Delmas and Blass, 2010; Saadaoui and Soobaroyen, 2018; Scalet and Kelly, 2010)*
- Time and cost of qualitative processes **conflict with economic objectives**, such as expanding their coverage of companies and sectors *(Boiral et al., 2021).*
- Rapid growth of rating agencies and the **difficulty in recruiting qualified analysts** to meet increasing client demand can affect quality and completeness of their analyses *(Boiral et al., 2021).*

INDEPENDENCE

- **Lack of Independence and neutrality** in the rating process *(Clementino and Perkins, 2022; Corsi and Arru, 2020; Utz, 2019)*
- Such as **advisors, data providers or rating agencies**, which can lead to potential **conflicts of interest** *(Balp and Strampelli, 2022)* and lead to different perspectives and objectives of the rating agencies *(Giannetti et al., 2015)*
- Need for a **clear separation** between **rating and advisory services** in order to effectively manage conflicts of interest *(Boiral et al., 2021)*

SUPERVISION

- Lack of standards and **no sanctions** for non-compliance (*Devinney, 2009).*
- **Difficulty to monitor ESG practices** at company level and from the perspective of rating agencies *(Mao et al., 2024).*
- Therefore, there is an urgent need for more **effective control and monitoring**, which should be a priority for regulators *(Utz, 2019).*

GEOGRAPHICAL AND INDUSTRIAL DIFFERENCES

- National rating agencies, compared to their global counterparts, have a **deeper understanding of local markets and cultural nuances** and may place more emphasis on *(Liu et al., 2024).*
- International Organisation of Securities Commissions (2021): Regions with **higher levels of regulation, legislation and stakeholder focus** are likely to have **more favourable valuations** (Pillai et al., 2021).
- Additionally, biases related to **firm location** and **industry sector** can influence ESG ratings. Larger companies with **higher market capitalisation** often receive better ratings than their smaller or medium-sized counterparts due to e.g. more resources for non-financial information disclosure. (Avetisyan and Hockerts, 2017; Elbasha and Avetisyan, 2018; Pagano et al., 2018).
- Although some market indices have started to provide ratings at a continental level, many ESG rating agencies, including the Global 100, do **not include geographical differences** in their ratings *(Zhang et al., 2020)*
- Two companies in the same industry may receive different ESG ratings depending on their geographic location (Chatterji et al., 2009; Chatterji et al., 2016).

Results

Systematic Literature Review

TRANSPARENCY

- **Lack of transparency** in ESG rating methodologies *(Nieto & Papathanassiou, 2024; Delmas & Blass, 2010; Drempetic et al., 2019; Abhayawansa & Tyagi, 2021).*
- Scalet and Kelly (2010) highlight that this **opacity hinders a full assessment of rating differences.**
- The lack of transparency is largely due to the proprietary nature of ratings, with agencies fearing that increased openness could jeopardize their intellectual property *(Delmas & Blass, 2010).*

Direct effects

- Technical type (divergence (64 articles) and transparency (22 articles)
- Ethical type (disagreement (31 articles) and manipulation (21 articles)

DIVERGENCE

- **Different results** from ESG rating agencies for the **same company** *(MacNeil and Esser, 2022; Chininga et al., 2024; Husted and Saffr, 2023).*
- Differences in measurement arise from using the same **attribute but including different variables or performance indicators** *(Yébenes, 2010)* or **different methods, scales and surveys** *(Windolph, 2011; Chelli and Gendron (2013).*

Studies on divergence:

- Comparing three major ESG rating approaches revealed a significant lack of convergence in ESG measurements *(Dorfleitner et al., 2015)*
- Chatterji et al. (2016) found little correlation between the ESG ratings of ASSET4, KLD, and various indices.
- Comparing six major ESG rating providers and found significant differences in the scope, measurement and weighting of categories, suggesting that the same ESG attributes are assessed using different underlying indicators. *(Berg et al., 2020)*
- Christensen et al. (2022) noted that rating differences are more pronounced with greater ESG disclosure.

Results

Systematic Literature Review

DISAGREEMENT

- Chelli and Gendron (2013) argue that ESG rating processes inherently involve moral judgements by **distinguishing between 'good' and 'bad'**.
- **Subjective judgement** in interpreting companies' ESG-related disclosures *(Wang et al., 2024; Serafeim & Yoon, 2023; Boiral et al., 2021).*
- Fowler and Hope (2007) note that **subjectivity** in ESG ratings is unavoidable due to the varying levels of company disclosure.
- Christensen et al. (2022) highlight the **lack of consensus on what defines good or poor ESG performance**.

Studies on rating disagreements:

- Disagreement on ESG ratings as an indicator of risk correlates positively with stock returns *(Gibson et al., 2021)*
- Disagreements on ESG ratings reduce demand for green stocks, increase market premiums, and hinder a company's ability to raise capital, limiting its ethical and sustainable development *(Rubino et al., 2024; Avramov et al., 2022).*

MANIPULATION

- **Misleading ESG disclosures** or **fraudulent practices**, like **greenwashing**, involve companies selectively presenting incomplete or distorted data *(Baker et al., 2024; Laufer, 2003).*
- Uncertainty about a company's ESG profile increases **opportunities for greenwashing** *(Ghitti et al., 2024; Boiral, 2013).*
- Managers may appear to fulfill ESG duties in order to portray their companies as ethical and responsible while **making profit manipulation**.
- Rating discrepancies may benefit institutional investors, who **selectively use information to enhance public perception of "sustainable" investments** *(Adams, 2002).*
- Additionally, rating variability may result in truly sustainable companies receiving unfavorable ratings (Pillai et al., 2024).

Results

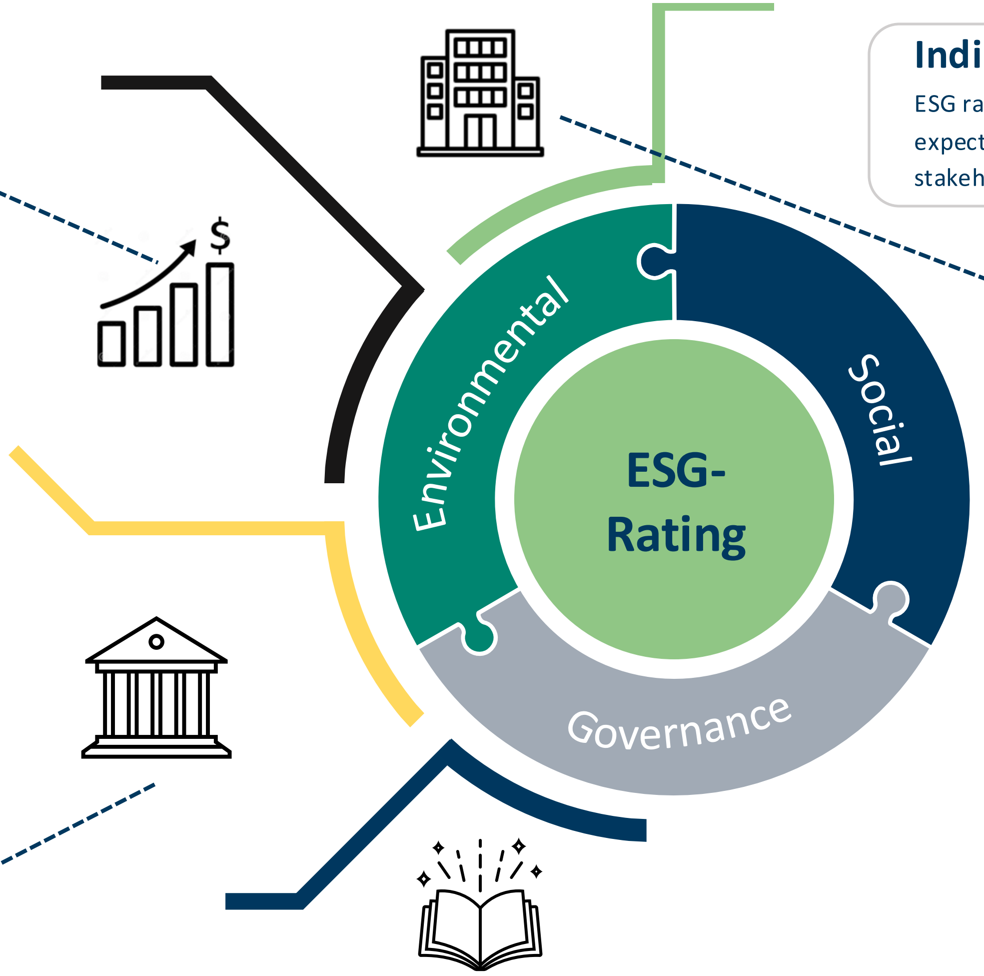
Systematic Literature Review

Investor

- Confusion in selecting investment targets *(Zhang et al., 2020)* can lead to **misguided decisions** *(Guo et al., 2024).*
- Investors struggle to integrate ESG aspects in portfolios, **reducing equity demand, liquidity, and a company's ability to raise capital** *(Rubino et al., 2024; Avramov et al., 2022).*
- Investors should **consider** both ESG performance and **rating divergences** to identify socially responsible companies *(Mao et al., 2024).*
- **Lack of reliable information** hampers investors' ability to differentiate companies by ESG performance and channel capital effectively *(Balp & Strampelli, 2022).*

Bank

- Challenges with poor data quality, inconsistent methodologies, and lack of transparency in ESG ratings *(Nieto & Papathanassiou, 2024).* Relying on ESG ratings may lead to biases and misjudgments potentially resulting in poor lending decisions *(Joly, 2010).*



Indirect effect

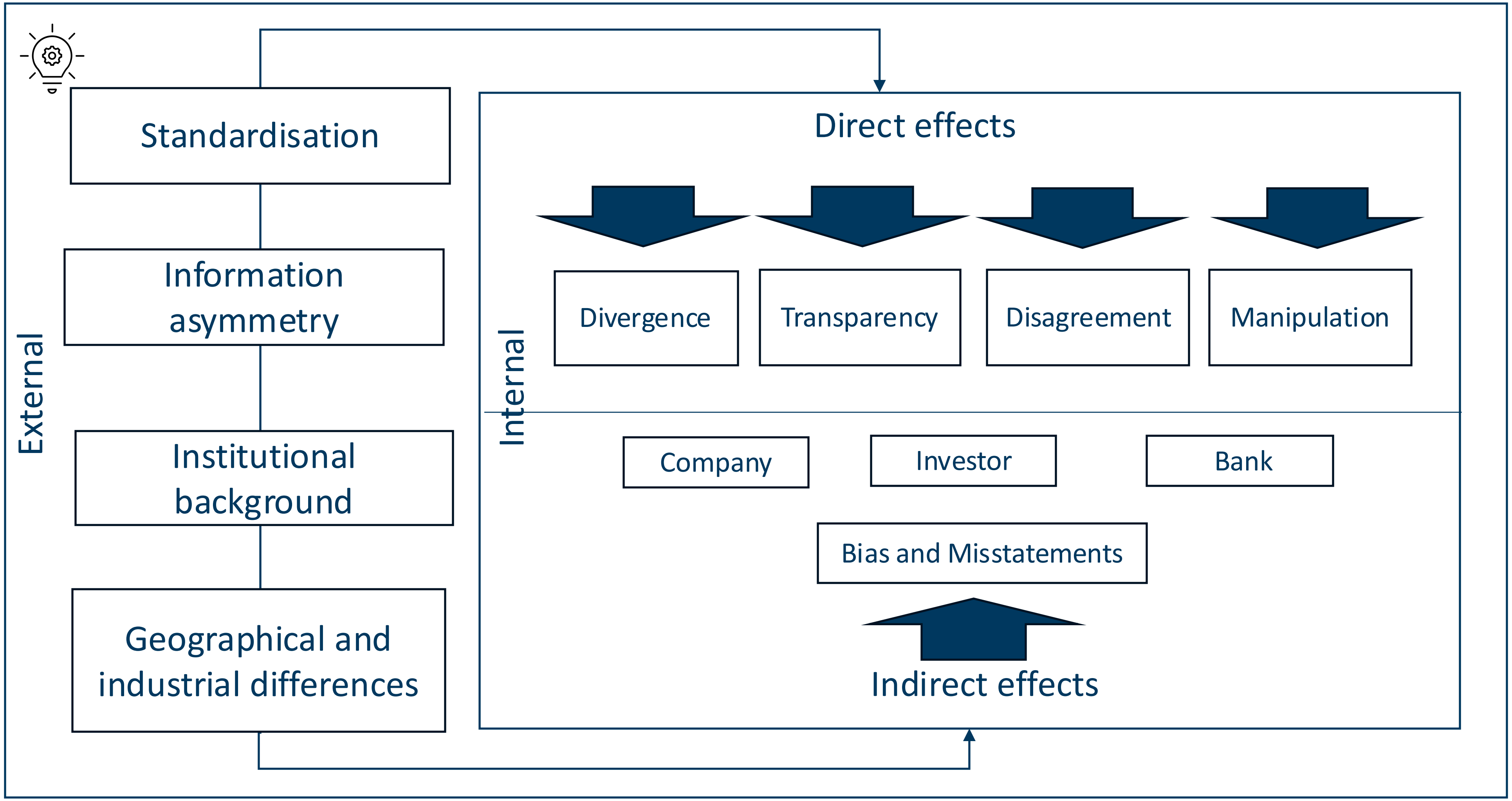
ESG ratings may give misleading signals about market expectations, causing distortions and misstatements for stakeholders (33 articles)

Company

- Divergence in ESG ratings affects companies' motivation to improve ESG performance, as **conflicting signals** from rating agencies create **confusion** about priorities *(Yébenes, 2024).*
- Different ESG ratings **increase uncertainty and risks**, raising **financing costs** and widening **analyst forecast divergence** *(Gibson et al., 2021; Christensen et al., 2022; Kimbrough et al., 2022; Guo et al., 2024).*
- CEOs may focus on achieving specific ratings, neglecting broader development, leading to **wasted resources** *(Berg et al., 2022).*
- Rating divergence also impacts companies' **investment decisions, corporate finance, and reputation** *(Mao et al., 2024; Wang et al., 2024; Chatterji et al., 2009).*

Results

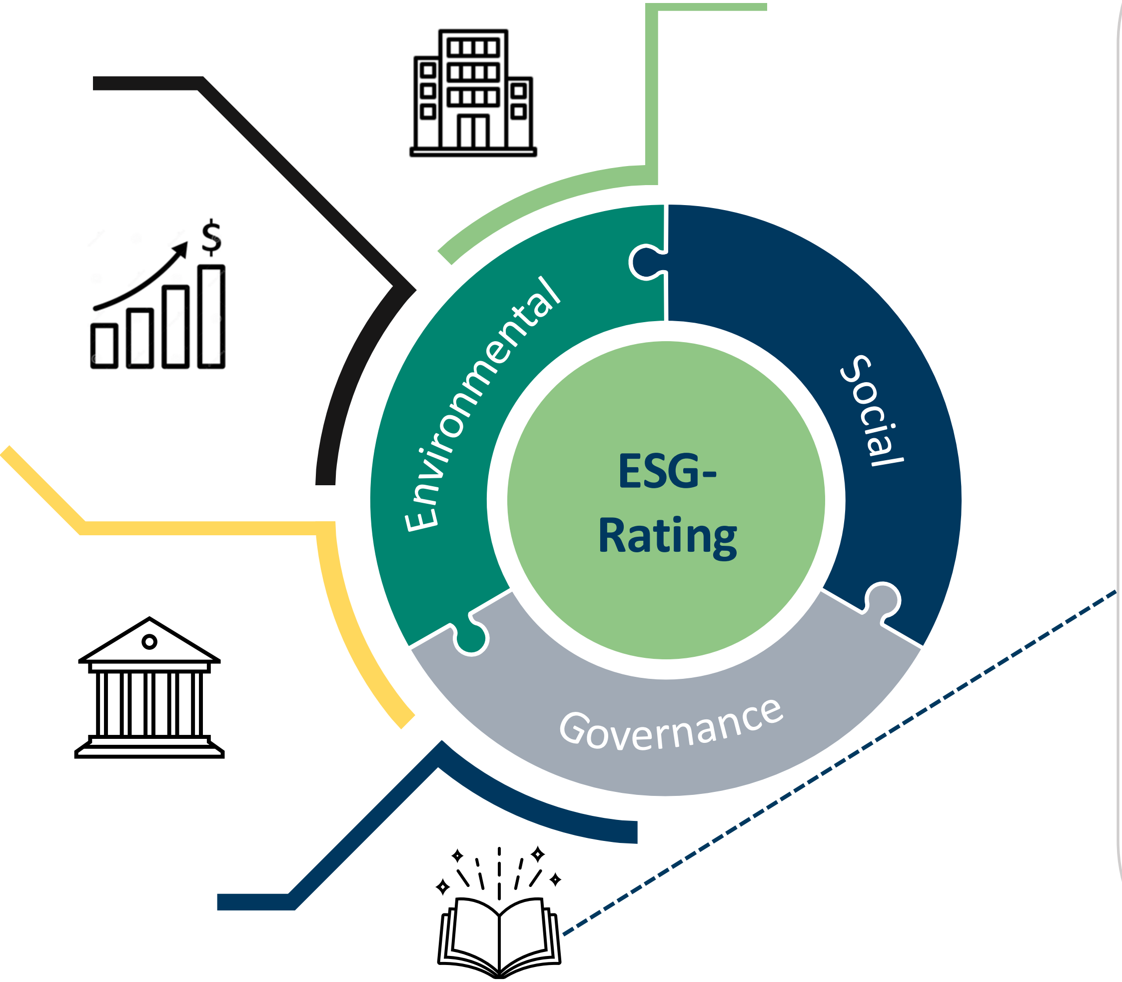
Systematic Literature Review



Quality deficiencies in the relevant data and information affect the **effectiveness of** ESG ratings. While the **inconsistency** of ESG ratings contributes to uncertainty, the **comparability issues** between raters call into question the **reliability** of ESG rating results. Recent literature and empirical evidence suggest that ESG rating firms have undermined the **validity** of ESG ratings. It is evident that ESG ratings create confusion, which severely impacts their **credibility**.

Results

Systematic Literature Review



Quantitative studies

- ESG ratings are a recent development (Ehlers et al., 2024) and, with increasing demand, have become the **focus of many studies**.
- ESG ratings present **challenges for quantitative research**, especially in empirical studies (D'Amato et al., 2021), and **few authors** acknowledge or address this issue within their **limitations:**

"As a limitation of our study, we used ESG and sustainability ratings from a single ESG rating agency. Finally, we did not consider the impact of CSR practices on information asymmetry. To improve the reliability of the work, we propose a research agenda" (Sciarelli et al., 2024, p. 53).

"Third, the study is fraught with the shortcomings and subjectivity of ESG ratings, which may diminish the validity of the results" (Ademi and Klungseth, 2022, p. 444).

- If existing research has not adequately considered and recognised the critical aspects of ESG ratings in their limitations or has ignored them altogether, their added **value is questionable.**

Further Research

Further Research

Nr.	Authors	Title	Year	Source title	Standardization	Informations assymetry	Institutional background	geographical and industrial differences	Direct effect				Indirect effect
									Divergence	Disagreement	Transparence	Manipulation	Bias and Misstatement
74	Chatterji, A.K., Levine, D.I. and To	How well do social ratings actually measure corporate social responsibility?	2009	Journal of Economics & Management Strategy							x		x
75	Chelli, M. and Gendron, Y.	Sustainability ratings and the disciplinary power of the ideology of numbers	2023	Journal of Business Ethics			x		x			x	
76	Gibson Brandon, R., Krueger, P.,	ESG rating disagreement and stock returns	2020	Financial Analysts Journal		x			x	x	x		x
77	Dumrose, M., Rink,, S., Eckert, J.	Disaggregating Confusion? The EU Taxonomy and Its Relation to ESG Rating	2024	Finance Research Letters					x				
78	Berg, F., Koelbel, J.F., Rigobon, R	Aggregate confusion: The divergence of ESG ratings	2021	Review of Finance	x				x	x	x		x
79	Dimson, E., Marsh, P., & Staunto	Divergent ESG Ratings.	2021	The Journal of Portfolio Management	x					x			x
80	Christensen, D.M., Serafeim, G.,	Why is corporate virtue in the eye of the beholder? The case of ESG ratings	2019	The Accounting Review	x	x			x	x		x	x
81	Abhayawansa, S., & Tyagi, S.	Sustainable investing: The black box of environmental, social, and governance (ESG) ratings	2010	The Journal of Wealth Managemen	x	x		x	x	x	x		x
82	Kotsantonis, S., & Serafeim, G.	Four things no one will tell you about ESG data	2024	Journal of Applied Corporate Finance	x	x					x		x
83	Atta-Darkua, V., Chambers, D., D	Strategies for responsible investing:emerging academic evidence	2024	The Journal of Portfolio Management						x			x
				∑	41	34	13	9	64	31	22	21	33

1. Challenges of Standards for geographical and industrial differences

- Lack of **standardisation and information asymmetry predominates,** being represented in a total of **75 articles.** Articles dealing with **geographical and industrial differences are underrepresented** with only **22 articles**. Potential for further research!
- *Capelle et al. (2017)* note that **comparing companies across different industries and regions using standardised criteria is challenging, if not impractical**.
- *Pillai et al. (2024)* have taken a **first step** with their exploratory study to **uncover the differences in ESG risks across regions, industries and sectors.**

2. Stakeholders - Determing aspects of ESG ratings benefit from standardisation and remaining proprietary to encourage innovation

- Despite the clear identification of criticism on ESG ratings in the literature, there is still a **lack of research on how these problems effect in detail on various stakeholder groups.**
- *Ball (2006) and Sunder (2010)* challenge the criticism of inconsistency in accounting standards, arguing that **uniformity can limit the ability to meet the diverse needs of stakeholders.** Rating agencies claim that flexibility is critical for adapting valuation and rating methodologies in response to customer and stakeholder feedback and support the view that **a 'one-size-fits-all' approach does not meet diverse information needs.**

Conclusion

Conclusion

Key findings

- Identification, structuring and visualisation: Criticism of ESG ratings focusing on **causes** (standardisation, information asymmetry, institutional background, geographical and industrial differences) and **effects** (divergence, disagreement, transparence, manipulation) faced by **stakeholders** (companies, banks, investors)
- Shortcomings of ESG ratings in **effectiveness, quality, consistency, comparability, reliability, validity, and credibility**
- Added value of using ESG ratings in **quantitative studies** remains open in the face of criticism

RQ 1 How has the literature on the critical analysis of ESG ratings envolved over time in terms of content? ✓

RQ 2 What are the areas of criticism of ESG ratings and how does the research deal with them? ✓

RQ 3 Where is the need for further research in the coverage of this research field? ✓

Limitation

- Although common economic databases and a well-defined search strategy were utilized, a comprehensive literature review cannot be fully guaranteed.
- Selection was filtered based on ranking lists, with grey literature excluded. The sample size could be expanded by adjusting the rankings or modifying quality thresholds.
- Despite applying reliability measures, the interpretation remains subject to some level of subjective judgment.

It is unrealistic to expect ESG ratings to accurately reflect reality. *(Capelle-Blancard and Petit, 2017; Escrig-Olmedo et al., 2017; Boiral et al., 2021)*

Do you trust ESG Ratings?