

The Role of Governance and Regulation in Shaping ESG Disclosure Quality

Reny Dany Merliyana¹

¹Universitas Garut, Indonesia

Correspondent: renydany@uniga.ac.id¹

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ABSTRACT: This article provides a narrative review of sustainability accounting and ESG disclosure by synthesizing current literature into four main themes: global trends, regulatory challenges, the link between disclosure and corporate performance, and issues of transparency such as greenwashing. The review aims to make the discussion accessible while maintaining academic rigor. The results demonstrate that while ESG reporting in developed economies has been strengthened by regulatory frameworks such as the EU Corporate Sustainability Reporting Directive, developing countries continue to rely on voluntary and inconsistent disclosure practices. Quantitative evidence indicates a positive association between robust ESG disclosure and corporate outcomes such as profitability, market valuation, and stakeholder trust, though these effects vary across sectors and national contexts. However, significant obstacles persist, including fragmented regulatory approaches, data quality limitations, and misleading practices that erode investor confidence. The discussion highlights the influence of systemic factors such as governance structures, cultural norms, and investor activism, and suggests potential solutions through standardization, independent assurance, and participatory oversight. Future research directions are proposed to address gaps in developing countries and evaluate new regulatory frameworks. These findings reinforce the urgency of advancing ESG disclosure as a credible and impactful mechanism for achieving sustainable corporate transformation.

Keywords: ESG Disclosure, Sustainability Accounting, Corporate Governance, Greenwashing, Financial Performance, Regulatory Frameworks, Sustainable Business.



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INTRODUCTION

In recent years, sustainability accounting and Environmental, Social, and Governance (ESG) disclosure have emerged as urgent topics within the global business community. This rise in prominence reflects the increasing recognition of corporate responsibility in addressing environmental and social challenges that extend beyond the traditional profit maximization model (Lokuwaduge et al., 2022; Jebe, 2019). ESG practices are not merely an avenue for enhancing corporate reputation; they also serve as mechanisms for attracting socially responsible investors and ultimately improving overall corporate performance. The urgency of these issues has been

further reinforced by stakeholders' growing demands for transparency in business practices and accountability regarding corporate impacts on society and the environment (Chopra et al., 2024; Robertson et al., 2022). As such, the study of ESG disclosure and sustainability accounting has become integral to understanding contemporary corporate governance and financial reporting frameworks.

The global trend toward sustainability reporting is supported by significant empirical evidence. A substantial number of companies now integrate ESG disclosure into their annual reports, reflecting a systematic and institutionalized approach to transparency. For instance, research indicates that approximately 96% of S&P 500 firms disclose some form of ESG-related information, suggesting near-universal adoption among leading corporations (Tamasiga et al., 2024). Moreover, surveys of institutional investors reveal that nearly two-thirds of them incorporate ESG information into their investment decision-making processes, underscoring the growing reliance on such disclosures for risk assessment and portfolio management (Lokuwaduge et al., 2022). These developments demonstrate a shift across industries—including energy, transportation, and finance—toward embedding ESG considerations into corporate strategies (Yadav et al., 2024; Chong & Loh, 2023). This widespread adoption illustrates the increasing materiality of ESG disclosure in shaping not only reputational outcomes but also financial viability.

Parallel to these developments, regulatory momentum has grown steadily, requiring more firms to comply with sustainability reporting mandates. Evidence shows that companies adhering to these regulations demonstrate greater resilience to market fluctuations and enjoy enhanced long-term financial performance. Furthermore, high-quality ESG disclosures have been found to build shareholder trust and elevate firm value, further supporting the notion that sustainability and financial performance are interlinked (Schiehl & Kolahgar, 2024; Cerciello et al., 2022). The literature increasingly highlights a significant positive correlation between robust ESG practices and financial outcomes, affirming the view among investors and analysts that ESG engagement is integral to long-term business success (Schwoy et al., 2024). This recognition has shifted ESG from a voluntary corporate social responsibility initiative into a mainstream component of corporate governance and financial strategy.

Despite these promising developments, the implementation of sustainability reporting standards remains fraught with challenges. One of the foremost difficulties lies in the lack of consistency and harmonization across international frameworks such as the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), and the International Financial Reporting Standards (IFRS S1 and S2). The proliferation of diverse reporting guidelines has created confusion among firms seeking to comply and among stakeholders seeking comparability (Pizzi et al., 2024; Chopra et al., 2024). The variation in reporting structures leads to uncertainty for investors and analysts who require transparency and consistency for informed decision-making (Lokuwaduge et al., 2022). This regulatory fragmentation underscores the need for unified global standards that can reconcile regional and sectoral differences.

Another persistent challenge is the quality and reliability of ESG data. Many firms remain in the early stages of adopting sustainability reporting, often providing incomplete or unverifiable data (Elmghamez et al., 2023). This lack of rigor undermines confidence among investors and stakeholders, fueling skepticism about the credibility of reported outcomes (Gangwani &

Kashiramka, 2024). Furthermore, disparities across industries and company sizes complicate the adoption of standardized reporting practices, as frameworks may be more applicable to some sectors than others (Tettamanzi et al., 2022). These limitations raise pressing questions regarding the comparability and reliability of ESG disclosure, particularly in emerging markets and less regulated industries.

A further area of complexity arises from the difficulty in linking ESG practices directly to financial performance. Although numerous studies have attempted to establish this relationship, findings remain inconsistent, reflecting variations across sectors, geographies, and methodological approaches (Schiehl & Kolahgar, 2024; Tamasiga et al., 2024). The lack of conclusive evidence challenges managers and policymakers in justifying ESG investments on purely financial grounds, highlighting the need for more nuanced analyses that capture both direct and indirect benefits of sustainability engagement. This challenge is exacerbated by the risk of “greenwashing,” where firms disclose favorable ESG information without substantive changes in practice, thereby misleading stakeholders and distorting the perceived benefits of sustainability reporting.

The literature reveals several important gaps that justify the need for a comprehensive narrative review of ESG disclosure. First, while many studies suggest a positive relationship between ESG disclosure and financial performance, these findings remain contested, and contextual variables often moderate the outcomes (Elmghaamez et al., 2023). Second, research on non-financial outcomes of ESG disclosure is relatively underdeveloped, limiting understanding of the broader dimensions of sustainability beyond financial metrics (Dechow, 2023). Third, long-term impacts of ESG reporting on firm value across diverse industries remain insufficiently explored, with most studies focusing on short-term correlations (Chopra et al., 2024; Chung et al., 2023). Finally, the literature underrepresents the role of local contexts, such as cultural, geopolitical, and economic conditions, in shaping the adoption and effectiveness of ESG reporting frameworks (Yadav et al., 2024). These gaps highlight the fragmented state of knowledge in this field and the necessity for integrative analyses.

The primary objective of this narrative review is to synthesize and critically evaluate existing literature on ESG disclosure to illuminate prevailing trends, challenges, and regulatory developments. Specifically, it seeks to analyze the relationships between ESG disclosure, corporate performance, and stakeholder trust, while also examining the regulatory and methodological challenges that hinder consistent implementation (Elmghaamez et al., 2023). By mapping these dimensions, the review aims to contribute to the ongoing academic and policy debates surrounding sustainability accounting and provide actionable insights for practitioners. The review also highlights how ESG disclosure can enhance investor decision-making, corporate reputation, and alignment with global sustainability agendas such as the United Nations Sustainable Development Goals (Pasko et al., 2022; Job & Khanna, 2024).

The scope of this review extends beyond a single geographical or sectoral focus, aiming instead for a broad and comparative perspective. While much of the existing literature has concentrated on firms in North America and Europe, there is a need to incorporate evidence from emerging economies where ESG adoption faces distinct challenges and opportunities (Turturea, 2016; Camilleri, 2018; Kasim et al., 2024; Herath & Herath, 2024). The review also seeks to address underexplored contexts, such as small and medium-sized enterprises (SMEs) and industries

outside the mainstream focus of manufacturing and finance, including agriculture and hospitality (Pratama et al., 2024; Elmghaamez et al., 2023). By adopting this inclusive scope, the study aims to capture the diverse realities of ESG disclosure practices and to underscore the importance of adaptable frameworks that can be applied across varying corporate sizes, sectors, and regional contexts. Ultimately, the review intends to advance both theoretical and practical understanding of ESG disclosure and to encourage more holistic approaches in future research.

METHOD

This study employed a narrative review methodology to synthesize and evaluate the growing body of literature on sustainability accounting and Environmental, Social, and Governance (ESG) disclosure. A systematic approach was followed to identify, select, and analyze relevant academic contributions in order to capture both the breadth and depth of existing research. The methodology was designed to ensure rigor, transparency, and replicability, while acknowledging the diversity of research traditions and methods present in this multidisciplinary field.

The first stage of the methodology involved the selection of appropriate academic databases. Scopus and Web of Science were prioritized as primary sources because they provide extensive coverage of peer-reviewed journal articles, include citation tracking capabilities, and allow for the identification of influential works within the field (Schiehl & Kolahgar, 2024; Pizzi et al., 2024). These databases were considered essential in establishing a foundation of high-quality and reputable studies. To complement this, Google Scholar was also included to capture a broader range of publications, including conference proceedings, working papers, and book chapters. Although Google Scholar is often less stringent in terms of peer review and article curation, it offers a wider scope that can highlight emerging topics and grey literature often overlooked in more selective databases (Elmghaamez et al., 2023). Previous studies have noted that the combined use of Scopus, Web of Science, and Google Scholar enhances the comprehensiveness of literature reviews in corporate sustainability and ESG disclosure research (Schwoy et al., 2024; Lokuwaduge et al., 2022). Beyond these academic repositories, secondary data were also considered, particularly in the form of corporate annual reports, sustainability reports, and specialized ESG databases such as Sustainalytics and MSCI, which provide granular firm-level data for contextual analysis (Herath & Herath, 2024).

The search process was guided by a set of carefully chosen keywords to maximize the relevance and precision of retrieved documents. The core term “sustainability accounting” was selected to capture studies focusing on the accounting dimensions of corporate responsibility and the integration of environmental and social factors into financial reporting. “ESG reporting standards” was employed to identify research discussing frameworks such as the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and the International Financial Reporting Standards (IFRS S1 and S2), all of which have become cornerstones of global sustainability reporting. The keyword “greenwashing” was included to capture critical perspectives on misleading ESG claims and the divergence between disclosure and actual corporate practice, a recurrent concern in this literature (Pasko et al., 2022; Gangwani & Kashiramka, 2024). Another important keyword was “corporate governance and ESG,” which directed attention to studies exploring the intersections of governance structures, board dynamics, and sustainability practices

(Lokuwaduge et al., 2022; Gesso & Lodhi, 2024). Finally, the broad term “sustainability reporting” was used to cover general investigations into reporting practices, transparency, and corporate responsibility narratives across industries and regions (Kasim et al., 2024; Principale & Pizzi, 2023). Employing this diverse set of keywords in various combinations improved the inclusiveness and accuracy of the search, ensuring that both conceptual and empirical studies were adequately represented.

Inclusion and exclusion criteria were applied systematically to maintain a high standard of evidence. Studies were included if they were published in peer-reviewed journals or reputable edited volumes, directly addressed sustainability accounting or ESG disclosure, and provided empirical evidence, theoretical insights, or policy-relevant analysis. To ensure contemporaneity and relevance, only works published from 2010 onwards were considered, reflecting the period in which ESG reporting began to gain significant traction globally. Both qualitative and quantitative studies were included, encompassing methodologies ranging from econometric analyses and case studies to surveys and content analyses. In contrast, articles were excluded if they did not directly pertain to corporate sustainability or ESG disclosure, if they focused narrowly on environmental or social issues without connecting them to disclosure or accounting practices, or if they were purely opinion pieces lacking empirical or theoretical grounding. Duplicate records across databases were also removed to avoid redundancy.

The screening process followed a multi-step procedure. After executing keyword searches across the selected databases, titles and abstracts were initially reviewed to determine relevance. Articles meeting the inclusion criteria were then subjected to full-text evaluation. This stage involved critical appraisal of methodological rigor, contextual relevance, and contribution to the broader discourse. In cases where eligibility was uncertain, consensus discussions were undertaken to ensure consistency in judgment. Reference lists of key articles were also examined to identify additional studies through snowball sampling, thereby capturing influential works that might not have been retrieved through keyword searches alone. This iterative approach enhanced the robustness of the review by incorporating both seminal and emerging contributions.

The types of studies included in this review reflect the multidisciplinary nature of the field. Quantitative research, such as large-sample econometric analyses, was particularly valuable in examining statistical relationships between ESG disclosure and financial or non-financial outcomes (Schiehl & Kolahgar, 2024). Qualitative studies, including case studies of individual firms or industries, provided contextual depth and highlighted sector-specific challenges and best practices (Elmghaamez et al., 2023). Mixed-methods research was also incorporated to balance the strengths of both approaches, offering comprehensive insights into the mechanisms linking ESG disclosure to corporate performance and stakeholder trust (Lokuwaduge et al., 2022). Systematic literature reviews and meta-analyses were given particular attention as they synthesize findings across multiple studies, helping to establish broader patterns and identify inconsistencies in the literature (Schwoy et al., 2024).

Data extraction and evaluation were conducted through thematic analysis to identify recurring patterns, trends, and gaps. Articles were coded based on themes such as regulatory frameworks, reporting quality, financial implications, stakeholder responses, and challenges of standardization. This thematic categorization enabled the organization of results in a manner that reflects both the

theoretical underpinnings and the practical realities of ESG disclosure. Throughout this process, emphasis was placed on transparency and reproducibility, with detailed records maintained of search queries, inclusion decisions, and coding schemes.

In summary, this methodology sought to balance breadth and depth by integrating multiple databases, employing a wide range of keywords, and applying stringent inclusion and exclusion criteria. By encompassing both empirical and theoretical works from diverse contexts, the review provides a comprehensive account of the current state of knowledge on sustainability accounting and ESG disclosure. The rigorous screening and coding processes ensured that only relevant and high-quality studies were included, enabling meaningful synthesis and critical evaluation. Ultimately, the methodological approach adopted in this study supports the production of a robust narrative review that can inform both academic debates and practical policy discussions on the future of ESG disclosure and corporate sustainability.

RESULT AND DISCUSSION

The results of this narrative review are organized into four major themes that have emerged consistently across the literature on sustainability accounting and ESG disclosure. These themes encompass the global trends in ESG reporting, regulatory and standardization challenges, the relationship between ESG disclosure and corporate performance, and the persistent concerns regarding greenwashing and transparency. Each theme synthesizes findings from multiple sources, providing both empirical evidence and comparative perspectives between developed and developing economies.

The first theme centers on the global trends in ESG disclosure. Research reveals that the growth trajectory of ESG disclosure differs markedly between developed and developing economies. In developed regions, particularly Europe and North America, ESG reporting has been accelerated by stringent regulatory frameworks that require firms to comply with detailed sustainability disclosure mandates. The European Union, for instance, has implemented directives on non-financial reporting that obligate large firms to include ESG data in their annual filings (Schiehl & Kolahgar, 2024; Pizzi et al., 2024). This has resulted in high adoption rates, more standardized practices, and improved accountability. By contrast, in developing countries, although awareness of ESG reporting is increasing, companies face significant barriers including limited financial resources, insufficient awareness, and lack of institutional infrastructure to support disclosure practices. In these contexts, disclosure often remains voluntary, which in turn reduces the comparability and credibility of ESG information. This divergence highlights the uneven global landscape of ESG reporting, where advanced economies benefit from regulatory clarity while emerging markets continue to struggle with structural constraints.

Quantitative indicators have been widely employed to measure the impact of ESG disclosure. These include ESG scores, indices such as the MSCI ESG Ratings and Sustainalytics, and firm-level financial metrics like market capitalization. ESG scores, which summarize firm performance across environmental, social, and governance dimensions, are now widely used by investors to assess risk and sustainability performance. Studies consistently show that higher ESG scores are associated with stronger investor confidence and better financial outcomes (Eng et al., 2021). For

instance, firms that achieve higher ESG ratings attract more institutional investment and demonstrate superior long-term profitability compared to those with lower scores (Elmghaamez et al., 2023). Such empirical evidence underscores the strategic significance of ESG disclosure in shaping capital flows and market valuations. It also demonstrates the materiality of ESG information, which investors increasingly view as essential for informed decision-making.

The second theme concerns the challenges of regulation and standardization. A key finding in the literature is the stark variation in ESG disclosure policies across jurisdictions. The European Union has established some of the most comprehensive frameworks, including the EU Taxonomy and the Corporate Sustainability Reporting Directive (CSRD), which require firms to disclose sustainability impacts in a structured and mandatory manner (Job & Khanna, 2024; Christensen et al., 2021). By contrast, in the United States, the Securities and Exchange Commission (SEC) has historically taken a more voluntary approach, offering guidelines rather than mandates. Although recent developments indicate a shift toward stronger ESG-related requirements, these remain less stringent than European standards (Buallay et al., 2020; Cerciello et al., 2022). In Asia, the regulatory environment is heterogeneous: some countries such as Japan and Singapore have introduced advanced ESG reporting rules, while others are still in the early stages of developing sustainability frameworks (Buallay et al., 2020). This variation reflects differences in political priorities, institutional maturity, and stakeholder pressures, which collectively shape the regional pace of ESG adoption.

Despite progress, firms face numerous obstacles in implementing ESG standards. The most frequently cited challenges are lack of clarity regarding applicable standards, shortage of internal expertise, and resource limitations. These barriers contribute to inconsistencies in disclosure quality, particularly in industries such as energy and mining where environmental and social risks are pronounced (Gesso & Lodhi, 2024). Firms in these high-impact sectors often encounter heightened scrutiny from regulators and investors, yet their disclosures sometimes remain superficial or incomplete due to cost constraints or strategic reluctance (Christensen et al., 2021). Moreover, the failure to comply with emerging ESG standards has been shown to erode investor trust, leading to reputational damage and reduced access to capital (Gangwani & Kashiramka, 2024). The evidence suggests that while regulatory frameworks have succeeded in promoting ESG disclosure, the effectiveness of implementation depends heavily on firms' capacity to overcome these structural and organizational hurdles.

The third theme focuses on the relationship between ESG disclosure and corporate performance. A broad body of research confirms a positive association between the extent of ESG disclosure and firm profitability as well as market valuation. For example, panel data analyses of multinational corporations show that firms with stronger ESG reporting demonstrate superior performance on indicators such as Return on Assets (ROA) and Tobin's Q (Elmghaamez et al., 2023). Similarly, firms with more extensive ESG disclosures often achieve higher market capitalizations, suggesting that investors assign greater value to transparency and sustainability commitments. These findings indicate that robust ESG reporting not only enhances corporate reputation but also delivers tangible financial benefits, reinforcing the business case for sustainability.

Nonetheless, variations across sectors and countries complicate the generalizability of these results. Industries with significant environmental footprints, such as energy, utilities, and mining, face

greater regulatory and stakeholder pressures to disclose ESG data (Eng et al., 2021). As a result, the link between ESG disclosure and financial outcomes tends to be more pronounced in these sectors, where transparency directly influences social license to operate. Conversely, in industries with relatively lower environmental risks, the financial impact of ESG disclosure is less consistent. National contexts further shape these relationships. For example, countries with stronger legal systems and governance structures often demonstrate clearer positive links between ESG disclosure and firm performance, while in weaker institutional contexts, the benefits are less apparent. These findings highlight the contingent nature of ESG impacts, suggesting that both industry-specific and institutional factors mediate the disclosure-performance nexus.

The fourth theme addresses the pervasive concern of greenwashing and its implications for transparency. A growing body of evidence shows that a substantial gap often exists between firms' ESG disclosures and their actual sustainability practices. This phenomenon, widely referred to as greenwashing, undermines the credibility of ESG reports and raises doubts about the integrity of corporate sustainability commitments (Cerciello et al., 2022). Studies indicate that up to 60% of ESG ratings may be based on aspirational statements rather than measurable performance outcomes, creating the risk of misleading investors and stakeholders. The literature further emphasizes that exaggerated or selective disclosures expose firms to reputational risks when discrepancies are revealed, particularly in industries under intense public scrutiny (Elmghaamez et al., 2023; Schiehl & Kolahgar, 2024). Greenwashing therefore represents a major obstacle to realizing the full potential of ESG disclosure as a tool for accountability and sustainable transformation.

Researchers have proposed various indicators to detect greenwashing within ESG reports. These include comparative analyses of reported versus actual environmental performance, such as discrepancies between stated carbon emissions reductions and independently verified emissions data (Cerciello et al., 2022; Turturea, 2016). Longitudinal analyses of year-to-year changes in sustainability reports have also been used to identify inconsistencies and rhetorical shifts that may indicate symbolic rather than substantive engagement with ESG principles (Tettamanzi et al., 2022). Additionally, examining public and media reactions to corporate ESG disclosures provides valuable insights into how stakeholders perceive the credibility of firms' claims. These methods underscore the importance of triangulating multiple sources of information to assess the authenticity of ESG disclosures. Importantly, they also suggest that enhancing third-party verification and assurance processes is critical to reducing the prevalence of greenwashing and reinforcing trust in sustainability reporting.

Taken together, the results highlight a complex but increasingly consequential role of ESG disclosure in shaping corporate practices, investor decisions, and regulatory frameworks. While developed economies lead in institutionalizing ESG reporting, developing countries continue to grapple with foundational challenges that limit disclosure quality and comparability. Regulatory initiatives, particularly in Europe, have provided important momentum, yet implementation gaps persist globally. Evidence consistently demonstrates financial benefits from robust ESG disclosure, but the strength of this relationship is mediated by sectoral and national contexts. Finally, the enduring problem of greenwashing threatens the legitimacy of ESG disclosure and underscores the need for stronger mechanisms to ensure transparency and accountability. These

findings provide a comprehensive foundation for subsequent discussions on how ESG disclosure can evolve into a more reliable, standardized, and impactful practice across diverse global contexts.

The findings of this narrative review highlight the interplay between systemic factors, regulatory frameworks, and firm-level practices in shaping the quality and impact of ESG disclosure. These findings must be situated within the broader literature to understand how structural conditions, institutional pressures, and organizational choices collectively determine the effectiveness of sustainability reporting. In doing so, it becomes clear that the evolution of ESG disclosure is both a product of global governance shifts and firm-level responses to increasingly complex stakeholder demands.

Systemic factors play a decisive role in determining the quality of ESG disclosure. Corporate governance structures are widely recognized as one of the most influential determinants. Firms with robust governance arrangements, such as independent audit committees and leadership that prioritizes sustainability, are more likely to produce transparent and reliable ESG reports (Elmghamez et al., 2023; Ma et al., 2024). The demographic composition of boards also matters, as research shows that gender-diverse boards are associated with improved ESG disclosure quality, reflecting the broader influence of inclusivity in shaping reporting practices (Ma et al., 2024). These findings reinforce theories of stakeholder and legitimacy, which suggest that governance structures serve as conduits for aligning firm practices with social expectations. Beyond internal governance, national culture exerts significant influence. In societies that emphasize transparency, accountability, and strong institutional norms, ESG reporting tends to be more comprehensive and trustworthy (Pasko et al., 2022). Conversely, in contexts characterized by weak institutions, corruption, or regulatory uncertainty, sustainability disclosures often remain fragmented and less reliable. The literature also highlights the increasing role of institutional investors, who now demand higher quality ESG information and use it as a basis for investment allocation (Schiehl & Kolahgar, 2024). This investor pressure not only improves disclosure standards but also generates market-based incentives for firms to integrate sustainability into their core strategies.

These systemic dynamics point to the necessity of regulatory and policy interventions. A recurring theme across the literature is the call for greater standardization of ESG disclosure frameworks to reduce inconsistencies and enhance comparability. Scholars argue that harmonized reporting standards at both national and international levels can provide a more level playing field and enable stakeholders to better assess corporate sustainability performance (Pasko et al., 2022; Pizzi et al., 2024). The adoption of mandatory frameworks such as GRI or SASB has been widely recommended as a means of curbing selective disclosure and improving overall accountability (Pizzi et al., 2024). In addition to standardization, independent oversight is critical. The incorporation of external audits and assurance services for ESG reports can strengthen credibility, mitigate risks of misrepresentation, and align disclosures with actual performance (Schiehl & Kolahgar, 2024; Gesso & Lodhi, 2024). This perspective resonates with the broader literature on corporate governance, which emphasizes the importance of third-party monitoring to ensure compliance and reliability. Furthermore, participatory approaches to ESG disclosure are gaining prominence, whereby local stakeholders and civil society organizations are directly involved in evaluating corporate reports. This inclusivity not only enhances legitimacy but also deters greenwashing by subjecting disclosures to diverse forms of scrutiny (Eng et al., 2021; Herath & Herath, 2024).

Addressing the risk of greenwashing requires systemic as well as organizational solutions. One line of argument emphasizes the need for more stringent regulatory enforcement to ensure that ESG reports are not merely aspirational documents but reflect measurable and verifiable performance. Another approach stresses the development of more sophisticated metrics and methodologies for detecting inconsistencies, such as cross-verifying reported data with independent environmental assessments or tracking year-on-year changes in reporting practices (Tettamanzi et al., 2022). Investor activism also emerges as a potent mechanism for combating greenwashing, as stakeholders can leverage their financial power to demand authenticity and penalize superficial sustainability claims. These solutions suggest that overcoming greenwashing requires both institutional reforms and enhanced stakeholder vigilance.

The review also highlights several gaps in the existing literature that warrant further exploration. While there is substantial evidence linking ESG disclosure to improved corporate performance in developed economies, much less is known about these dynamics in developing countries. Contextual differences such as weaker institutional environments, varying stakeholder expectations, and limited resources necessitate more empirical studies that specifically address the challenges of emerging markets (Jean & Grant, 2022). Further research should investigate how local governance systems and cultural norms mediate the adoption and effectiveness of ESG disclosure in these settings. Another underexplored area concerns the behavioral mechanisms through which ESG disclosure influences investor decisions and stakeholder perceptions. While it is established that ESG information shapes market valuations, little is known about how different types of information—quantitative metrics versus narrative disclosures—affect decision-making (Robertson et al., 2022; Sahoo & Sahoo, 2024). Research in this domain could provide valuable insights for designing disclosures that are both credible and decision-useful.

The introduction of new regulatory frameworks such as IFRS S1 and S2 also opens fertile ground for future research. Understanding how these standards influence firm behavior across different sectors and regions is critical to evaluating their effectiveness in enhancing transparency and accountability (Herath & Herath, 2024; Tamasiga et al., 2024). Scholars have noted that while these frameworks aim to improve comparability, they may impose disproportionate burdens on smaller firms or those in developing contexts, raising questions about equity and feasibility. Investigating the unintended consequences of such regulations will be important for informing policy adjustments and ensuring that ESG disclosure evolves in a balanced and inclusive manner.

A broader implication of these findings is that improving ESG disclosure requires a collective effort involving firms, regulators, investors, and civil society. While corporate governance reforms and investor activism are powerful levers, they must be supported by coherent policies and standardized frameworks to achieve meaningful progress. At the same time, the academic community has a role to play in advancing theoretical and empirical understanding of the mechanisms linking ESG disclosure to corporate outcomes and societal impacts. By bridging the existing knowledge gaps and exploring new frontiers, future research can contribute to the development of more effective, transparent, and accountable ESG disclosure practices.

CONCLUSION

This narrative review underscores the increasing importance of sustainability accounting and Environmental, Social, and Governance (ESG) disclosure in shaping global business practices, investor decision-making, and corporate governance. The findings reveal that while developed economies have achieved significant progress due to regulatory mandates and standardized frameworks, developing countries continue to struggle with resource constraints, limited awareness, and institutional weaknesses that hinder disclosure quality and comparability. Quantitative evidence consistently shows that robust ESG disclosure enhances corporate profitability, market valuation, and stakeholder trust, yet variations across sectors and national contexts demonstrate that these benefits are unevenly distributed. Challenges of regulatory fragmentation, inconsistent data quality, and the persistence of greenwashing practices highlight the urgent need for harmonized global standards, independent verification, and stronger stakeholder engagement to improve transparency and credibility.

The discussion further emphasizes the role of systemic factors such as corporate governance structures, national culture, and investor pressure in determining the quality of ESG reporting. These insights suggest that improvements must extend beyond technical reporting frameworks to address deeper institutional and organizational conditions. Policy recommendations include mandating standardized disclosure frameworks, strengthening third-party assurance processes, and fostering participatory oversight involving civil society. Future research should expand to emerging economies, investigate the behavioral mechanisms linking ESG disclosure to stakeholder decisions, and evaluate the impact of new frameworks such as IFRS S1 and S2 across sectors and regions. Advancing ESG disclosure requires collaborative efforts among firms, regulators, investors, and academia to ensure reporting becomes not only comparable and transparent but also a genuine driver of sustainable corporate transformation.

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