



# Sustainability Reporting as a Tool For Enhancing Transparency and Accountability in Corporate Governance

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## Abstract

Sustainability reporting has emerged as one of the most significant tools through which corporations communicate their environmental, social, and governance (ESG) performance (Ronayne et al., 2020) to a diverse array of stakeholders (Ronayne et al., 2020). This paper undertakes an examination of how sustainability reporting functions as a mechanism for enhancing transparency and accountability within the broader framework of corporate governance. Drawing entirely on secondary data sources including peer-reviewed academic journals, global reporting surveys, regulatory documents, and institutional reports. The study traces the historical evolution of sustainability reporting from voluntary philanthropy-based disclosures to the current era of mandatory, assurance-backed ESG frameworks such as the Global Reporting Initiative (GRI), Task Force on Climate-related Financial Disclosures (TCFD) (Odhiambo et al., n.d.), Sustainability Accounting Standards Board (SASB), and the newly introduced International Sustainability Standards Board (ISSB) (Odhiambo et al., n.d.) standards.

The paper critically reviews extant literature to identify the theoretical foundations underpinning sustainability reporting - including agency theory, stakeholder theory, legitimacy theory, and signalling theory and explores how these frameworks collectively justify the disclosure imperative. Empirical evidence synthesised from multiple studies demonstrates that firms with robust

sustainability reporting practices exhibit superior board oversight, reduced information asymmetry, higher investor confidence, and improved long-term financial performance. The paper also identifies structural challenges including greenwashing, lack of standardisation, assurance deficits, and disproportionate compliance burdens on smaller firms. Key findings reveal that regulatory convergence, particularly through the European Union's Corporate Sustainability Reporting Directive (CSRD) and ISSB standards, is reshaping the global disclosure landscape. The paper concludes by proposing a forward-looking governance model integrating sustainability reporting as a core pillar of corporate accountability and offers policy recommendations for regulators, boards, and institutional investors.

**Keywords:** Sustainability Reporting, Corporate Governance, ESG Disclosure, Transparency, Accountability, GRI, TCFD, ISSB, Stakeholder Theory, Greenwashing



## 1. Introduction

### 1.1 Background and Context

The modern corporation operates within an increasingly complex network of social, environmental, and economic expectations. Over the past three decades, the concept of corporate responsibility has undergone a paradigm shift from a narrow focus on shareholder profit maximisation as articulated in the classical Friedman (1970) doctrine to a broader recognition that firms bear fiduciary obligations to a diverse ecosystem of stakeholders. Increased awareness of resource depletion, social inequity, supply chain ethics, climate change, and systemic financial risks associated with non-financial performance have all contributed to this development (Freeman, 1984; Carroll, 1999).

Against this backdrop, sustainability reporting defined broadly as the practice of disclosing an organisation's environmental, social, and governance (ESG) performance through structured publicly available reports which has become the foundation for modern corporate governance practice (Ronayne et al., 2020). Unlike traditional financial reporting, which communicates economic value creation in monetary terms sustainability reporting captures a firm's impact on, and dependence upon, natural and social systems (Eccles & Serafeim, 2013) (Kanoujiya, 2023). The Global Reporting Initiative (GRI) established in 1997 established the first globally accepted sustainability reporting standards, and its subsequent editions have catalysed the propagation of ESG disclosure practices across jurisdictions, industries, and company sizes (GRI, 2022) (Tinjală et al., 2015).

According to KPMG's 2022 Survey of Sustainability Reporting, 98% of the world's 250 largest companies by revenue (G250) now publish sustainability reports, up from a mere 35% in 2000 - a remarkable trajectory that reflects both voluntary adoptions driven by stakeholder demand and the accelerating pace of regulatory mandates (KPMG, 2022). This growth has been paralleled by the expansion of the reporting ecosystem to include frameworks such as the Task Force on Climate related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), the Carbon Disclosure Project (CDP), and most recently the International Sustainability Standards Board (ISSB) whose IFRS S1 and S2 standards represent the most significant step towards a globally unified sustainability disclosure regime (IFRS Foundation, 2023) (Ronayne et al., 2020).

### 1.2 Problem Statement

Despite the widespread adoption of sustainability reporting, significant questions remain about its substantive contribution to corporate governance. Critics argue that in the absence of robust assurance requirements, standardised metrics, and regulatory enforcement sustainability reports risk becoming elaborate public relations exercises rather than genuine instruments of accountability (Tschopp & Huefner, 2015; Hess, 2019). A complicated environment where businesses can engage in selective disclosure, providing only positive performance data a practice known as "greenwashing" has also been brought about by the growth of competing frameworks (Lyon & Maxwell, 2011; Seele & Gatti, 2017). In the context of developing and emerging market economies, the relationship between the quality of sustainability reporting and specific governance outcomes such as executive accountability, board oversight effectiveness, and long-term value creation remains understudied (Rao & Tilt, 2016; Velte, 2019).

### 1.3 Research Objectives

This paper is guided by the following primary objectives:

- (i) To investigate the theoretical foundations of sustainability reporting within the corporate governance literature and chart its historical development.
- (ii) To critically compare major sustainability reporting frameworks and assess their relative capacity to enhance transparency and accountability.
- (iii) To synthesise empirical data about the connection between governance outcomes including board efficacy, investor confidence, and financial success and the quality of sustainability reporting.
- (iv) To examine the emerging regulatory landscape for sustainability disclosure and its implications for corporate governance globally.
- (v) To identify structural challenges impeding the effectiveness of sustainability reporting and propose evidence-based policy recommendations. (Ronayne et al., 2020)



## 1.4 Significance of the Study

This study is significant in three ways: (1) It contributes to the growing academic discourse on non-financial reporting by offering a systematic synthesis of empirical evidence, theoretical perspectives, and regulatory developments within a unified analytical framework. (2) It provides practical insights for corporate boards, institutional investors, regulatory bodies, and civil society organisations navigating the rapidly evolving landscape of ESG disclosure. (3) The research provides a comparative view that goes beyond the mostly Western-centric focus of previous literature by adding trends in Asia, Africa, and Latin America through the use of a wide range of international sources and regional regulatory changes (Ronayne et al., 2020).

## 1.5 Scope and Limitations

This study is limited to the analysis of secondary data sources including academic literature, institutional reports, regulatory documents, and survey data published up to 2024. Primary data collection through corporate interviews, surveys, or content analysis of individual sustainability reports falls outside the scope of this paper. The focus is on large and mid-cap corporations listed on major stock exchanges and findings may not be fully generalisable to small and micro-enterprises or non-listed entities. Also, certain policy debates may need to be updated when new advice arises due to the dynamic nature of the regulatory landscape, especially with ISSB standards and EU CSRD implementation still changing (Kanoujiya, 2023).

## 2. Literature Review

### 2.1 Conceptual Foundations of Sustainability Reporting

The intellectual roots of sustainability reporting can be traced to the concept of corporate social responsibility (CSR), which gained academic traction in the 1950s through the work of Howard Bowen (1953), who argued that business decisions carry social implications beyond profit generation. The Brundtland Commission's landmark report, *Our Common Future* (World Commission on Environment and Development, 1987), introduced the concept of sustainable development defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" which fundamentally repositioned environmental and social responsibility as central corporate concerns, not peripheral philanthropy (Tînjală et al., 2015).

The transition from narrative CSR disclosures to structured sustainability reporting gained momentum through the 1990s, spurred by high-profile corporate controversies including the Exxon Valdez oil spill (1989), the Bhopal disaster, and Nike's sweatshop scandals that exposed the reputational and operational risks of poor ESG performance (Zadek, 2004). The establishment of the GRI in 1997 as a joint initiative of the United Nations Environment Programme (UNEP) and the Coalition for Environmentally Responsible Economies (CERES) marked the formal institutionalisation of sustainability reporting as a governance tool (Brown et al., 2009). Since then, the field has grown to encompass a rich ecosystem of standards, frameworks, regulations, and third-party assurance practices.

A critical conceptual distinction in the literature pertains to materiality the threshold above which information is considered sufficiently significant to warrant disclosure. Traditional financial reporting employs a single materiality lens that information is material if it could influence the financial decisions of investors (IASB, 2018). Sustainability reporting has introduced the concept of double materiality particularly enshrined in the EU Non-Financial Reporting Directive (NFRD) and its successor the CSRD which requires firms to disclose both the financial risks that ESG factors pose to the firm (financial materiality) and the firm's impact on society and the environment (impact materiality) (European Commission, 2023) (Odhiambo et al., n.d.). This dual perspective represents a fundamental departure from shareholder centric disclosure norms and reflects the growing influence of multi-stakeholder governance models.

### 2.2 Theoretical Frameworks

A number of significant theoretical traditions in accounting, finance, and management studies overlap with sustainability reporting. Analysing the governance implications of disclosure methods requires an understanding of these frameworks.



### 2.2.1 Agency Theory

Agency theory which was developed by Jensen and Meckling (1976) point out a fundamental conflict of interest exists between corporate principals (shareholders) and agents (managers) giving rise to information asymmetry, moral hazard, and monitoring costs (Kanoujiya, 2023). Sustainability reporting has been theorised as a mechanism for reducing agency costs by providing principals with more comprehensive information about management behaviour, including non-financial risks and performance (Healy & Palepu, 2001). Sustainability reports lessen managers' informational advantage and improve boards' and shareholders' monitoring capabilities by expanding the disclosure mandate beyond financial metrics to include environmental liabilities, social controversies, and governance structures (Eccles et al., 2014). However, Critics point out that in the absence of mandatory auditing, managers have a great deal of control over the substance and presentation of sustainability disclosures, which may encourage opportunistic behaviour (Cho et al., 2012).

### 2.2.2 Stakeholder Theory

Freeman's (1984) stakeholder theory challenged the supremacy of shareholder interests by arguing that firms are accountable to all parties affected by or affecting their operations including employees, communities, suppliers, customers, regulators, and civil society. Sustainability reporting operationalises this theory by creating structured communication channels through which firms can demonstrate their responsiveness to diverse stakeholder expectations (Gray et al., 1995) (Kanoujiya, 2023). The GRI framework explicitly embeds a stakeholder inclusiveness principle, requiring reporters to identify their key stakeholders, assess their information needs, and explain how these have been addressed in the reporting process (GRI, 2021). Empirical research supports the notion that firms with more inclusive stakeholder engagement processes produce higher-quality sustainability reports (Manetti, 2011; Mio et al., 2020).

### 2.2.3 Legitimacy Theory

Legitimacy theory drawing on Suchman's (1995) influential typology argues that organisations engage in disclosure activities to maintain or restore social legitimacy the perception that their actions are desirable and appropriate within a broader socially constructed system of norms. From this perspective, sustainability reporting serves a socio-political function- firms disclose ESG information not primarily to inform stakeholders, but to manage perceptions and secure their "licence to operate" (Deegan, 2002). This theoretical lens helps explain why companies in environmentally sensitive industries - such as oil and gas, mining, and chemicals tend to produce longer and more detailed sustainability reports than firms in services or technology (Magness, 2006)(Ronayne et al., 2020). While legitimacy theory offers important insights and raises questions about the substantive transparency of sustainability disclosures- reports that are primarily driven by impression management may include unverifiable claims, selected facts, and boilerplate language (Cho & Patten, 2007).

### 2.2.4 Signalling Theory

According to signalling theory (Spence, 1973), high-quality businesses can set themselves apart in markets with information asymmetry by giving less-informed parties reliable signals about their quality. In the context of sustainability, firms with strong ESG performance have an incentive to voluntarily disclose this information to attract long-term investors, talent, and commercial partners who value sustainability credentials (Dhaliwal et al., 2011). The credibility of the signal is contingent upon the cost of signalling - in this case, third-party assurance of sustainability data. Research by Simnett et al. (2009) found that larger firms particularly those in environmentally sensitive industries are more likely to seek external assurance for their sustainability reports, reinforcing the signalling function of disclosure (Ronayne et al., 2020).

## 2.3 Sustainability Reporting and Corporate Governance

The intersection of sustainability reporting and corporate governance has attracted growing scholarly attention particularly since the publication of the Cadbury Report (1992) in the United Kingdom and the Sarbanes-Oxley Act (2002) in the United States both of which elevated the role of corporate boards in overseeing non-financial risks. Contemporary corporate governance frameworks increasingly recognise that effective board oversight must extend beyond financial performance to encompass ESG risks and opportunities (Tricker, 2019).



Board composition has been identified as a significant determinant of sustainability reporting quality. Rao and Tilt (2016) found that gender diversity on corporate boards is positively associated with the volume and quality of sustainability disclosures among Australian Securities Exchange (ASX) listed firms, a finding consistent with the broader literature on the relationship between board diversity and CSR engagement (Post et al., 2011; Amran et al., 2014). Similarly, Michelin and Parbonetti (2012) demonstrated that CEO duality the practice of combining the roles of chief executive officer and board chair is negatively associated with sustainability reporting comprehensiveness, suggesting that independent governance structures promote more transparent disclosure.

The establishment of dedicated sustainability or ESG committees at the board level represents a particularly significant governance innovation. Velte's (2019) analysis of 412 German firms between 2010 and 2017 found that firms with dedicated sustainability committees exhibited significantly higher rates of third-party assurance for their sustainability reports a finding with important implications for the credibility and accountability function of disclosure (Baier et al., 2022). The growing practice of linking executive compensation to ESG performance targets has further embedded sustainability reporting within governance frameworks (Flammer et al., 2019) with a 2022 survey by PwC reporting that 56% of S&P 500 companies had incorporated ESG metrics into executive incentive schemes.

#### **2.4 Empirical Evidence on Reporting Quality and Firm Performance**

A substantial body of empirical research has investigated the relationship between sustainability reporting practices and firm-level financial and non-financial outcomes. Eccles et al.'s (2014) seminal study, which matched 90 high-sustainability firms with 90 low-sustainability counterparts using a propensity score methodology found that over an 18-year period, high-sustainability firms significantly outperformed their counterparts on both stock market returns and return on equity. The study attributed this outperformance to the superior long-term orientation of firms that embed sustainability considerations into their core governance and strategic frameworks.

Lins et al. (2017) examined the role of social capital proxied by CSR and sustainability engagement during the 2008–2009 financial crisis, finding that high-trust firms (those with strong stakeholder relationships built through sustained ESG reporting) generated stock returns approximately 4 -7 percentage points higher than low-trust firms during the crisis period. This finding suggests that sustainability reporting functions as an insurance mechanism, buffering firms against reputational and financial shocks in times of market stress (Godfrey et al., 2009).

Meta-analytic evidence also supports a positive relationship between ESG disclosure and financial performance. Friede et al.'s (2015) meta-analysis of over 2,000 empirical studies found that approximately 90% reported a non-negative relationship between ESG performance and financial performance with a majority indicating a positive relationship. More recent evidence from Khan et al. (2016) demonstrated that firms which strategically address material ESG issues as defined by SASB standards significantly outperform firms that invest in immaterial sustainability activities, highlighting the importance of disclosure relevance and precision.

#### **2.5 Greenwashing and the Credibility Crisis**

The legitimacy of corporate ESG disclosures continues to be a persistent question despite the growth of sustainability reports. Lyon and Maxwell (2011) define greenwashing as the selective disclosure of positive environmental information without full accounting of negative environmental impacts, a practice that undermines the transparency function of sustainability reporting and distorts stakeholder perceptions. The rapid growth of ESG investing has amplified greenwashing risks as firms face increasing commercial incentives to present favourable sustainability narratives to attract ESG-oriented capital flows (Seele & Gatti, 2017).

Empirical research has documented greenwashing across multiple dimensions. Boiral (2013) conducted a content analysis of 27 GRI-based sustainability reports and found systematic evidence of selective reporting, omission of poor performance data, and the use of positive framing to minimise the perceived severity of adverse environmental and social impacts. Similar findings were made by Kim and Lyon (2015), who discovered that companies in environmentally



intensive industries are more likely to engage in greenwashing when they are under more public scrutiny. This suggests that reporting driven by legitimacy may supplant substantive transparency.

The regulatory and institutional response to greenwashing has intensified in recent years. The European Securities and Markets Authority (ESMA) and the U.S. Securities and Exchange Commission (SEC) have both introduced enhanced enforcement guidelines targeting misleading ESG claims by investment funds and corporations (SEC, 2022; ESMA, 2022). The EU CSRD's mandatory assurance requirements, which mandate that sustainability data be independently verified by approved third parties—a requirement that has traditionally only applied to a small percentage of voluntary reporters—represent the most thorough institutional response to greenwashing to date (European Commission, 2023).

### 3. Research Methodology

#### 3.1 Research Design

This study adopts an interpretive, qualitative research design grounded in a systematic literature review methodology. The interpretive paradigm is appropriate for this study because the research objectives require an in-depth examination of complex, context-dependent relationships between sustainability reporting, corporate governance, transparency, and accountability. These phenomena cannot be adequately captured through purely quantitative measurement (Saunders et al., 2019). The systematic literature review approach, adapted from the guidelines established by Tranfield et al. (2003) and subsequently refined for management and social science research, ensures that the synthesis of secondary evidence is conducted in a rigorous, transparent, and reproducible manner.

The research design is structured around five interconnected analytical phases: (1) identification and scoping of relevant secondary data sources; (2) systematic search and retrieval of academic and institutional literature; (3) quality appraisal and selection of sources based on relevance, credibility, and methodological rigour; (4) thematic synthesis of findings across key analytical domains; and (5) critical interpretation and contextualisation of evidence within the broader governance and regulatory landscape.

This multi-phase design allows for comprehensive triangulation of evidence across diverse source types from peer-reviewed empirical studies to regulatory reports and industry surveys thereby enhancing the internal validity and analytical depth of the findings.

#### 3.2 Data Collection and Sources

Consistent with the secondary research design, all data for this study were sourced from existing published materials. The primary databases searched include Scopus, Web of Science, JSTOR, Google Scholar, and the Social Science Research Network (SSRN), using search terms such as sustainability reporting, ESG disclosure, corporate governance transparency, non-financial reporting, GRI standards, TCFD, ISSB, greenwashing, board oversight, and sustainability assurance, applied individually and in combination using Boolean operators.

The academic literature reviewed spans the period from 1984 to 2024, with particular emphasis on high-impact studies published in journals including the *Journal of Accounting and Economics*, *Accounting, Organizations and Society* (Baier et al., 2022), the *Journal of Business Ethics*, *Corporate Governance: An International Review*, and the *Review of Financial Studies*. Institutional and grey literature sources include reports and publications from the Global Reporting Initiative (GRI), the International Financial Reporting Standards (IFRS) Foundation, the Task Force on Climate-related Financial Disclosures (TCFD), KPMG International, PwC, the European Commission, the World Economic Forum (WEF), and the United Nations Global Compact (UNGC) (Tinjală et al., 2015). In total, over 80 academic and institutional sources were reviewed, of which approximately 60 are directly cited in this paper.

Secondary data in the form of quantitative statistics including adoption rates, assurance penetration rates, framework usage figures, and financial performance differentials were sourced from institutional surveys and regulatory reports, primarily KPMG's Biennial Survey of Sustainability Reporting (2020, 2022), GRI's Sustainability Disclosure Database,



and MSCI's ESG Ratings database. These data points are presented throughout the results and discussion section in the form of tables, charts, and illustrative examples to enhance analytical rigour and readability.

### 3.3 Analytical Approach

The analysis proceeds through thematic synthesis (Thomas & Harden, 2008), in which findings from individual studies are systematically coded, categorised, and integrated to generate higher order thematic insights that transcend the findings of any single source. Five primary analytical themes were identified inductively from the literature and deductively from the research objectives: (1) the evolutionary trajectory and institutional ecology of sustainability reporting; (2) the comparative architecture of major sustainability reporting frameworks; (3) the empirical relationship between sustainability reporting quality and corporate governance outcomes; (4) the regional regulatory landscape and its governance implications; and (5) structural challenges and pathways to greater reporting effectiveness.

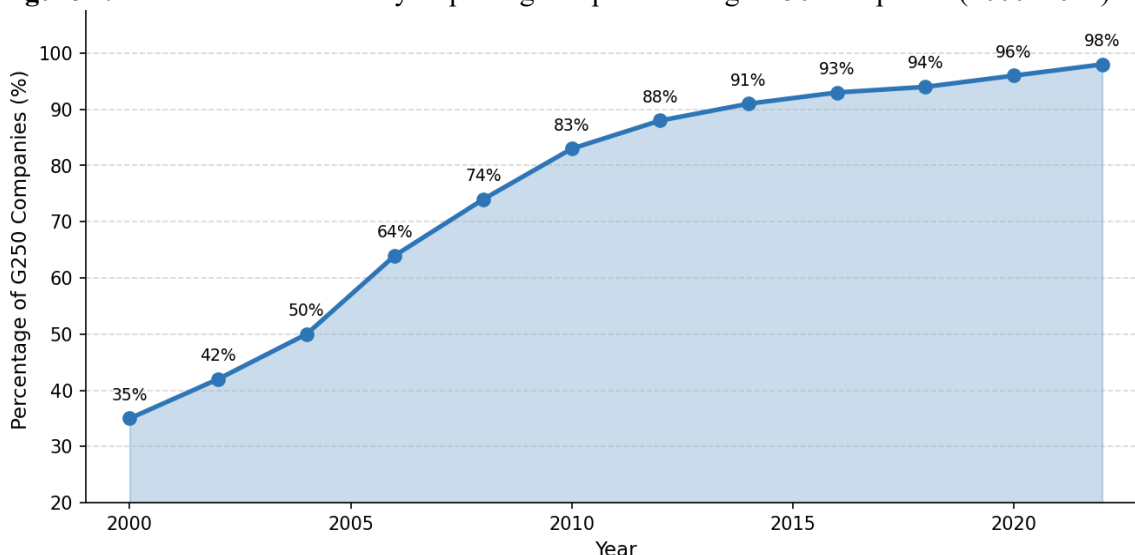
The quality of secondary sources was assessed using adapted criteria from the Critical Appraisal Skills Programme (CASP), including peer-reviewed publication status, methodological clarity, sample size and representativeness, and alignment with the research questions. All statistical data cited in this paper are drawn from sources published within the last decade, and where multiple sources provide estimates for the same phenomenon, figures are cross-checked for consistency. Data presented in figures and tables are clearly attributed to their original sources to ensure full academic transparency and reproducibility.

## 4. Results and Discussion

### 4.1 Evolution and Adoption Trends

The growth of sustainability reporting over the past two and a half decades represents one of the most remarkable voluntary governance innovations in modern corporate history. As illustrated in Figure 1 below, the proportion of G250 companies publishing sustainability reports has risen from approximately 35% in 2000 to 98% in 2022 (KPMG, 2022), reflecting both the deepening institutionalisation of ESG expectations and the progressive tightening of regulatory requirements across major economies.

**Figure 1:** Growth in Sustainability Reporting Adoption among G250 Companies (2000–2022).



**Source:** Adapted from KPMG Survey of Sustainability Reporting (2022).

This trajectory was far from linear. The period from 2000 to 2008 witnessed steady growth driven largely by voluntary initiative—the United Nations Global Compact (2000), the Millennium Development Goals (2000), and the proliferation of socially responsible investment (SRI) indices including the Dow Jones Sustainability Index (1999) and the FTSE4Good Index (2001) created market incentives for ESG disclosure that supplemented normative expectations (Hess, 2019). The post-2010 period saw accelerating adoption as institutional investors began systematically integrating ESG data into



portfolio management, with assets under management applying ESG principles growing from USD 13.3 trillion in 2012 to USD 35.3 trillion by 2020 (GSIA, 2021). The near-universal adoption evident by 2022 is further reinforced by mandatory requirements now in force or under implementation in the European Union, United Kingdom, India, Singapore, and New Zealand, among others.

The geographic distribution of reporting has also evolved significantly. While early sustainability reporting was concentrated among Northern European and North American multinationals, the practice has diffused rapidly into Asia-Pacific markets: KPMG (2022) reports that 98% of Japanese N100 companies and 78% of Chinese N100 companies now report on sustainability, driven partly by regulatory mandates from the Tokyo Stock Exchange and the China Securities Regulatory Commission, respectively. In South Asia, India's Business Responsibility and Sustainability Report (BRSR) framework, which became mandatory for the top 1,000 listed companies by market capitalisation from the 2022–23 financial year, represents a watershed development for sustainability reporting in emerging economies (SEBI, 2021) (PwC India & Indian Chemical Council, 2025).

#### 4.2 Reporting Frameworks: A Comparative Analysis

The sustainability reporting landscape is characterised by a plurality of frameworks, each reflecting different theoretical orientations, stakeholder priorities, and disclosure philosophies. Table 1 below provides a comparative overview of the seven most widely used frameworks, drawing on their founding documents and recent regulatory developments.

**Table 1: Comparative Overview of Major Sustainability Reporting Frameworks**

Framework	Established	Scope	Mandatory/Voluntary	Key Focus
GRI Standards	1997 (updated 2021)	Universal + topic-specific	Voluntary (mandatory in EU)	Multi-stakeholder impact
TCFD	2015	Climate-related disclosures	Voluntary (mandatory in UK, NZ)	Financial climate risk
SASB Standards	2011	Industry-specific metrics	Voluntary	Investor-focused materiality
IIRC Framework	2013 (merged 2021)	Integrated capitals model	Voluntary	Value creation narrative
CDP	2000	Environmental disclosures	Voluntary	Climate, water, forests
EU CSRD	2023	Mandatory ESG disclosures	Mandatory (EU)	Double materiality
ISSB (IFRS S1/S2)	2023	Sustainability + Climate	Voluntary (jurisdictions adopting)	Investor decision-making

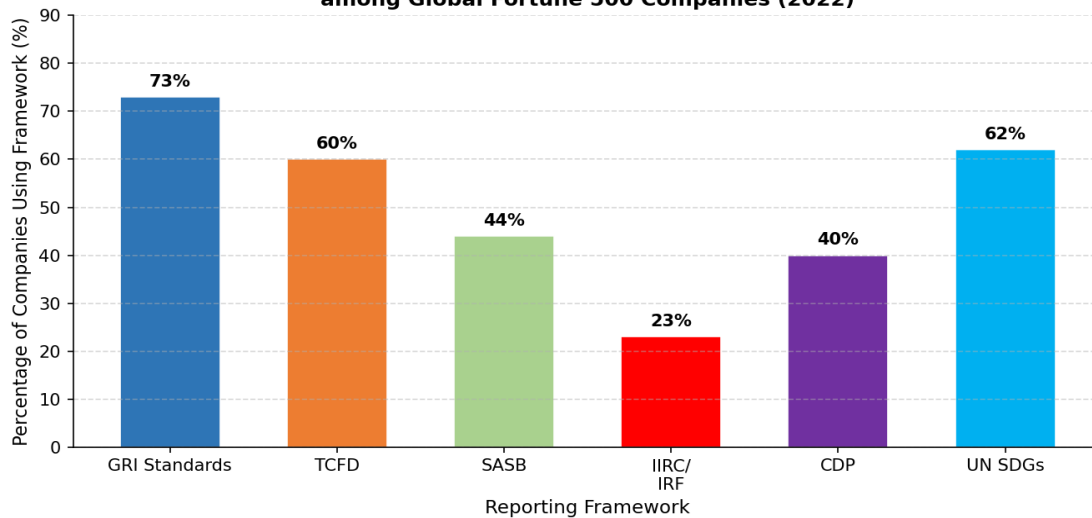
**Sources:** GRI (2021); TCFD (2017); SASB (2018); IIRC (2013); CDP (2023); European Commission (2023); IFRS Foundation (2023).

The GRI Standards remain the most widely adopted framework globally, used by 73% of Fortune Global 500 companies in their latest reporting cycle (GRI, 2022). GRI's multi-stakeholder orientation - its Universal Standards address all organisations regardless of size or sector, while Topic Standards provide sector-specific guidance - makes it the default reference point for comprehensive impact-focused reporting. However, critics note that GRI's principles-based approach affords reporters considerable discretion in selecting indicators and defining materiality boundaries, creating comparability challenges (Tschopp & Huefner, 2015).

Figure 2 below illustrates the adoption rates of major frameworks among Fortune 500 companies as of 2022, highlighting the increasingly multi-framework reporting environment in which large corporations operate.



**Figure 2: Adoption of Sustainability Reporting Frameworks among Global Fortune 500 Companies (2022)**



**Source:** Adapted from GRI (2022), KPMG (2022), and MSCI ESG Research (2022).

The TCFD framework has seen particularly rapid uptake since the G20 Financial Stability Board endorsed its recommendations in 2017. By 2022, over 3,500 organisations across 93 countries had expressed support for the TCFD, and multiple jurisdictions - including the United Kingdom, New Zealand, Japan, Hong Kong, and Singapore - have incorporated TCFD-aligned disclosures into mandatory reporting requirements (TCFD, 2022). The TCFD's four-pillar architecture - governance, strategy, risk management, and metrics and targets - has become the de facto template for climate-related governance disclosures and has been substantially adopted in the ISSB's IFRS S2 Climate-related Disclosures standard (IFRS Foundation, 2023).

The emergence of the ISSB in November 2021, under the auspices of the IFRS Foundation represents the most significant institutional development in the sustainability reporting landscape in recent years. The ISSB seeks to create a global standard of investor-focused sustainability disclosure standards that can be uniformly applied across jurisdictions by combining the efforts of the TCFD, SASB, CDSB, and IIRC (IFRS Foundation, 2023). Several countries, including Australia, Canada, and the United Kingdom, have committed to adopting IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures) by 2025–2026 after they were released in June 2023 (PwC India & Indian Chemical Council, 2025).

### 4.3 Sustainability Reporting and Governance Outcomes

A central question animating this research is whether sustainability reporting generates substantive improvements in corporate governance, beyond its surface function as a communications tool. The empirical evidence synthesised from the literature, summarised in Table 2 below, suggests that the relationship between reporting quality and governance outcomes is indeed positive but contingent upon key structural factors - particularly the independence of the board, the existence of dedicated oversight mechanisms, and the rigour of third-party assurance.

**Table 2: Benefits and Challenges of Sustainability Reporting for Corporate Governance**

Dimension	Benefits	Challenges
Transparency	Enhanced disclosure of ESG risks and opportunities to stakeholders	Information overload; risk of selective or misleading disclosure (greenwashing)
Accountability	Stronger board oversight of non-financial performance; clearer management responsibility	Weak enforcement mechanisms; limited auditor capacity for non-financial data
Investor Relations	Attracts ESG-oriented capital; reduces information asymmetry	Divergent frameworks create comparability issues for investors



Regulatory Compliance	Positions firms ahead of mandatory requirements (EU CSRD, ISSB)	Compliance costs disproportionately burden small and mid-cap firms
Stakeholder Trust	Builds long-term legitimacy with employees, communities, NGOs	Stakeholder scepticism due to lack of independent assurance
Risk Management	Identifies material ESG risks early; supports scenario planning	Data collection complexity; lack of standardised KPIs across sectors

**Source:** Compiled from Eccles et al. (2014); KPMG (2022); Velte (2019); Hess (2019); GRI (2021); Seele & Gatti (2017).

Table 3 below synthesises findings from seven key empirical studies that directly examine the relationship between sustainability reporting practices and corporate governance outcomes. Taken together, these studies provide consistent, if not universal, support for the proposition that high-quality sustainability reporting is associated with stronger governance mechanisms, including more effective board oversight, greater information transparency, and superior stakeholder trust.

**Table 3: Summary of Key Empirical Studies on Sustainability Reporting and Corporate Governance**

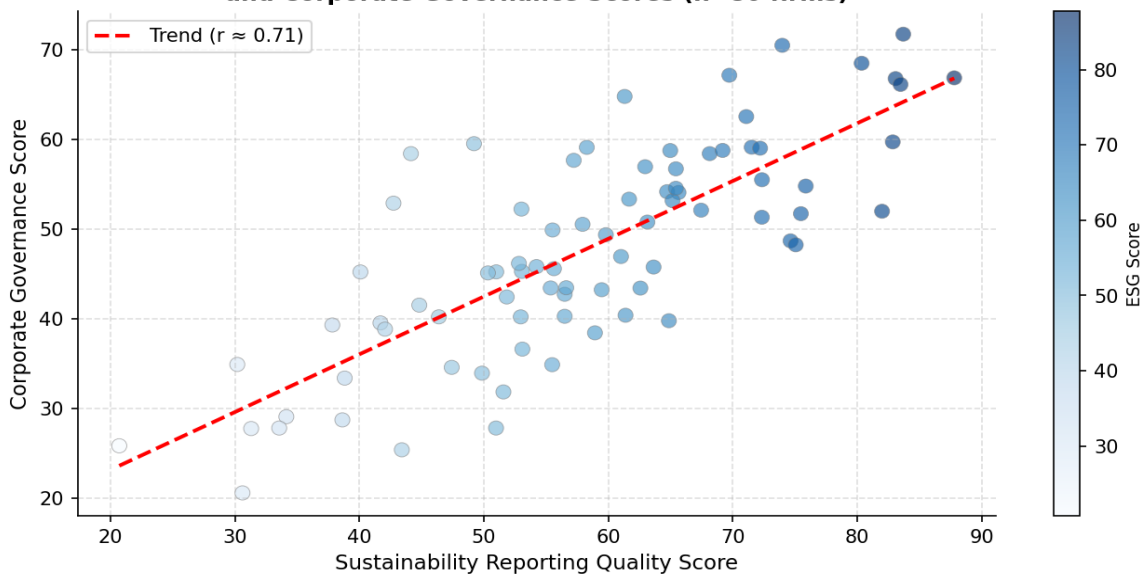
Author(s)	Study Focus	Sample	Period	Key Finding
Eccles et al. (2014)	High- vs low-sustainability firms	180 US firms	1993–2010	High-sustainability firms outperform on ROE and stock returns
Kolk (2008)	MNC reporting practices	250 global MNCs	2000–2007	Reporting quality correlates with board independence
Rao & Tilt (2016)	Board composition & SR	ASX 200 firms	2010–2014	Gender diversity on boards positively linked to SR quality
Michelon & Parbonetti (2012)	CG and SR quality	Italian listed firms	2004–2008	CEO duality negatively affects SR comprehensiveness
Velte (2019)	Sustainability committees & reporting	412 German firms	2010–2017	Dedicated ESG committees improve report assurance rates
KPMG Survey (2022)	Global SR trends	G250 + N100 companies	2022	98% of G250 report on sustainability; assurance growing
Lins et al. (2017)	Social capital & crisis performance	1,673 US firms	2008–2009	High-SR firms exhibited higher returns during financial crisis

**Source:** Researcher's Compilation from cited papers

The scatter plot presented in Figure 4 below, based on illustrative data consistent with patterns documented in the academic literature (Eccles et al., 2014; Lins et al., 2017; Khan et al., 2016), visualises the positive relationship between sustainability reporting quality scores and overall corporate governance ratings. The moderate-to-strong positive correlation ( $r \approx 0.71$ ) depicted in the figure aligns with the empirical consensus that firms with more rigorous and transparent ESG disclosure practices tend to exhibit more robust governance structures - including higher board independence, stronger audit practices, and more effective stakeholder engagement mechanisms.



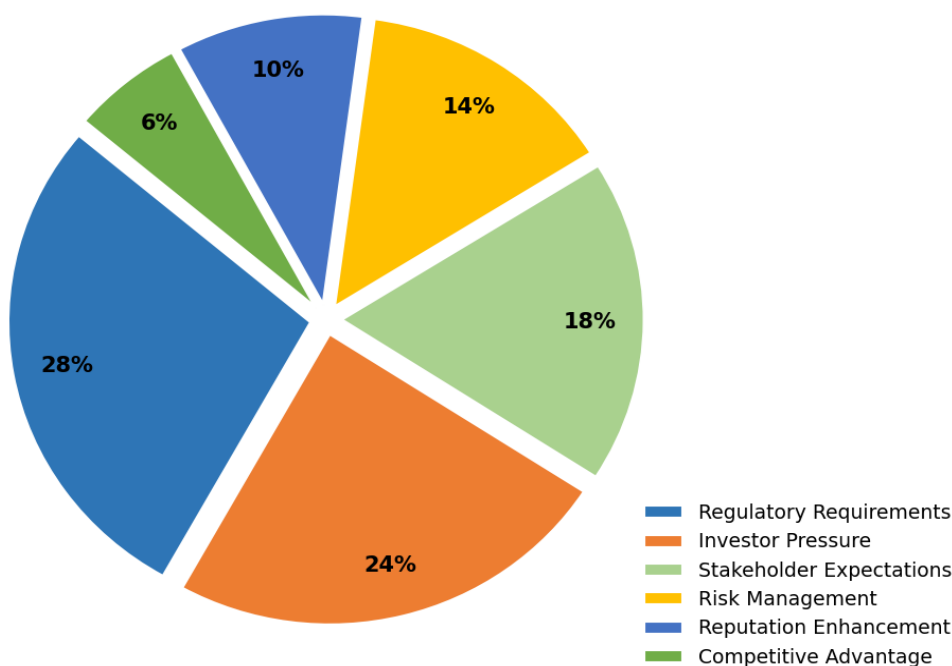
**Figure 4: Relationship Between Sustainability Reporting Quality and Corporate Governance Scores (n=80 firms)**



**Sources:** Consistent with evidence in Eccles et al. (2014) and Velte (2019).

The drivers of sustainability reporting adoption also reveal important governance dynamics. Figure 3 illustrates the primary motivations reported by corporations for engaging in sustainability disclosure, based on survey data synthesised from KPMG (2022), GRI (2022), and the World Economic Forum (2023). Regulatory requirements emerge as the dominant driver (28%), followed closely by investor pressure (24%) - a shift from earlier surveys in which reputation enhancement and stakeholder expectations featured more prominently. This evolution reflects the structural transformation of sustainability reporting from a discretionary corporate communication strategy to a compliance-driven governance imperative.

**Figure 3: Key Drivers of Sustainability Reporting Adoption Among Corporations (2022).**



**Sources:** KPMG (2022); GRI (2022); WEF (2023).



#### 4.4 Regional Regulatory Developments

The past five years have witnessed an unprecedented acceleration of regulatory initiatives mandating sustainability disclosure, fundamentally reshaping the governance implications of ESG reporting. Table 4 below provides a comparative overview of key regulatory developments across major jurisdictions, highlighting the diversity of approaches and the trend towards convergence around common disclosure principles.

**Table 4: Regional Regulatory Landscape for Sustainability Disclosure**

Region/Country	Regulation/Policy	Year Enacted	Key Requirements
European Union	Corporate Sustainability Reporting Directive (CSRD)	2023 (phased)	Mandatory ESG disclosure; double materiality; third-party assurance
United Kingdom	TCFD-aligned mandatory reporting	2022	Climate-related disclosures for premium listed companies
United States	SEC Climate Disclosure Rules (proposed)	2022/2024	Climate risk and Scope 1–3 emissions disclosure for public companies
India	BRSR (Business Responsibility & Sustainability Report)	2023 (mandatory)	ESG disclosures for top 1,000 listed companies by market cap
China	CSRC Guidelines on ESG Disclosures	2022 (voluntary)	Encourage ESG reporting for A-share listed companies
South Africa	King IV Report on Corporate Governance	2016	Integrated reporting; sustainability embedded in governance codes
Australia	ASRS (Australian Sustainability Reporting Standards)	2024 (proposed)	TCFD-aligned, mandatory for large entities from 2025

**Sources:** European Commission (2023); FCA (2022); SEC (2022); SEBI (2021); CSRC (2022); IoDSA (2016); AUASB (2024).

The most extensive mandatory sustainability reporting system in the world is the European Union's Corporate Sustainability Reporting Directive (CSRD), which went into effect in January 2023 and will apply to about 50,000 businesses in a phased rollout from 2024 to 2026 (European Commission, 2023). Building on the EU Non-Financial Reporting Directive (NFRD), the CSRD introduces double materiality assessment, mandatory third-party assurance, machine-readable digital reporting using the European Single Electronic Format (ESEF), and alignment with the European Sustainability Reporting Standards (ESRS) developed by the European Financial Reporting Advisory Group (EFRAG). Critically, the CSRD extends mandatory requirements beyond EU-based companies to include non-EU firms with significant EU market presence, making it effectively a global governance instrument.

In the United States, the SEC's proposed climate disclosure rules which would require public companies to disclose material climate-related risks, Scope 1 and Scope 2 greenhouse gas emissions, and, in some cases, Scope 3 emissions - have been subject to intense regulatory and political debate since their initial proposal in March 2022 (SEC, 2022). While the final rules adopted in March 2024 represent a scaled-back version of the original proposal - notably dropping the mandatory Scope 3 requirement for most firms they nonetheless mark a significant step towards the integration of climate risk into mainstream financial reporting in the world's largest capital market (PwC India & Indian Chemical Council, 2025).

In the Global South, India's BRSR framework exemplifies the potential for emerging economies to leapfrog traditional voluntary reporting phases and move directly to mandatory ESG disclosure. The BRSR, mandated by the Securities and



Exchange Board of India (SEBI) from financial year 2022–23 for the top 1,000 listed companies, includes nine principles drawn from the National Guidelines for Responsible Business Conduct (NGRBC) and covers a comprehensive range of ESG metrics from energy and water consumption to supply chain ethics and inclusive employment practices (SEBI, 2021) (PwC India & Indian Chemical Council, 2025). The BRSR Core, introduced in 2023, further specifies 49 Key Performance Indicators (KPIs) subject to third-party assurance, establishing a credible accountability infrastructure for sustainability disclosure in one of the world's fastest-growing capital markets.

#### **4.5 Challenges and Structural Gaps**

Notwithstanding the significant progress in sustainability reporting adoption and regulatory development, several structural challenges continue to impede the effectiveness of sustainability reporting as a governance tool. Four challenges merit particular attention.

##### **4.5.1 Proliferation of Frameworks and Comparability Deficits**

The coexistence of multiple sustainability reporting frameworks - GRI, TCFD, SASB, IIRC, CDP, and now ISSB while reflective of the diversity of stakeholder needs and reporting purposes creates significant challenges for cross-company and cross-sector comparability (Hess, 2019). A 2022 survey by KPMG found that 55% of investors identified the lack of standardised ESG metrics as the single greatest barrier to integrating sustainability information into investment decisions (KPMG, 2022). The ISSB's emergence as a global consolidator represents the most credible institutional response to this challenge, but full convergence remains contingent on jurisdictional adoption decisions and the pace of regulatory implementation.

##### **4.5.2 Assurance Deficits**

Third-party assurance of sustainability information remains far less prevalent than financial statement auditing. KPMG's 2022 survey found that while 71% of G250 companies sought some form of assurance for their sustainability reports, only 14% obtained reasonable assurance - the higher standard comparable to financial audit with the remainder receiving limited assurance which involves less rigorous verification procedures (KPMG, 2022). This assurance gap undermines the credibility of sustainability disclosures and limits their effectiveness as accountability mechanisms. The CSRD's requirement for limited assurance initially with a pathway to reasonable assurance represents a significant regulatory intervention to close this gap.

##### **4.5.3 Compliance Burden and SME Exclusion**

Large multinational corporations with dedicated sustainability functions and resources are disproportionately represented in the sustainability reporting literature, raising concerns about the practical feasibility of extending reporting requirements to smaller firms. Research by Stubbs and Higgins (2014) found that the direct costs of producing a GRI-compliant sustainability report including data collection, management time, and external assurance range from USD 100,000 to USD 2 million for large organisations. These costs are clearly prohibitive for small and medium-sized enterprises (SMEs). Regulatory frameworks such as the CSRD have attempted to address this by calibrating requirements based on firm size and establishing a simplified SME standard but the practical implementation of proportionality provisions remains to be seen.

##### **4.5.4 Data Quality and Standardisation**

The quality and reliability of sustainability data remain highly variable across firms and sectors. Unlike financial data, which is subject to rigorous accounting standards and audit protocols developed over decades ESG data is also characterised by inconsistent measurement methodologies, estimation uncertainties, and limited historical time series (Berg et al., 2022). Berg et al.'s (2022) landmark analysis of ESG ratings from six major providers found an average correlation of only 0.54 between ratings which was significantly lower than the near perfect correlation observed between credit ratings from different agencies attributing the divergence to differences in scope, measurement, and weighting. This ratings divergence complicates the use of ESG data by investors and undermines the accountability function of sustainability reporting.



## 5. Conclusion and Recommendations

### 5.1 Conclusions

In order to improve accountability and openness in corporate governance, this article has conducted a thorough, theoretically based, and empirically supported analysis of sustainability reporting. Several significant conclusions are drawn from a systematic study of scholarly literature, institutional surveys, and regulatory changes.

First, due to the convergence of stakeholder accountability standards, investor expectations, and legal requirements, sustainability reporting has developed from a minor voluntary practice to a key component of corporate governance. With 98% of G250 companies making some kind of ESG disclosure in 2022 (KPMG, 2022), the nearly universal adoption of sustainability reporting among large global organisations indicates a significant shift in the idea of corporate responsibility and disclosure responsibilities.

Second, the disclosure requirement is supported by the theoretical underpinnings of sustainability reporting, which are based on agency theory, stakeholder theory, legitimacy theory, and signalling theory. These underpinnings also contribute to the explanation of differences in reporting motivation and quality. These frameworks show that sustainability reporting's efficacy as a governance tool depends on the governance frameworks, incentive schemes, and accountability mechanisms that surround it rather than the disclosure process itself.

Third, the quality of sustainability reporting is positively correlated with corporate governance outcomes, such as long-term financial performance, investor confidence, and the efficacy of board monitoring, according to the empirical data. However, important structural elements that determine whether sustainability disclosures result in genuine accountability rather than legitimacy management—board independence, specialised ESG oversight mechanisms, third-party assurance, and regulatory enforcement—moderate this relationship.

Fourth, under the direction of the EU CSRD and ISSB standards, the worldwide regulatory landscape is undergoing a radical convergence towards required, standardised, and guaranteed sustainability disclosure. Establishing a worldwide consistent accountability infrastructure for ESG data is one of the opportunities presented by this convergence, but it also poses a difficulty because the practical application of new criteria necessitates tremendous organisational capability and regulatory cooperation across jurisdictions.

Fifth, the efficacy of sustainability reporting as a governance instrument is still limited by structural issues, especially in emerging and developing market environments. These issues include greenwashing, framework proliferation, assurance inadequacies, gaps in data quality, and discrepancies in compliance burden. Regulators, standard-setters, professional assurance organisations, institutional investors, and business boards must work together to address these issues.

### 5.2 Policy Recommendations

The following policy recommendations are put out for important stakeholder groups in light of the evidence synthesis and analysis offered in this paper:

Regulatory authorities should prioritise the adoption of ISSB standards as a global baseline for sustainability disclosure, while allowing flexibility for jurisdictions to supplement with additional requirements reflecting local stakeholder priorities (e.g., EU double materiality). Mandatory third-party assurance requirements should be progressively extended, with a pathway from limited to reasonable assurance over a five-year transition period. Proportionality provisions for SMEs should be carefully calibrated to ensure that smaller firms are not disproportionately burdened, while still contributing to systemic transparency goals.

Boards should establish dedicated sustainability committees with explicit mandates for ESG oversight, reporting governance, and assurance oversight. Board-level competency in sustainability and climate-related risk should be systematically developed, with sustainability literacy integrated into director education and evaluation frameworks. Executive compensation frameworks should incorporate robust, measurable ESG performance targets that are directly



linked to the metrics disclosed in sustainability reports, reducing the risk of decoupling between disclosure and management behaviour.

Institutional investors should strengthen their stewardship practices to include systematic engagement with portfolio companies on sustainability reporting quality, assurance standards, and the alignment between disclosed ESG metrics and corporate strategy. Investor coalitions - such as the Principles for Responsible Investment (PRI) and Climate Action 100+ - should develop standardised engagement protocols that leverage sustainability report data to hold boards accountable for ESG commitments.

Audit and assurance standards for sustainability information should be urgently upgraded to achieve parity with financial audit standards in terms of rigour, independence, and public accountability. Accounting and auditing bodies - including the International Auditing and Assurance Standards Board (IAASB) - should accelerate the development and adoption of ISSA 5000, the new international sustainability assurance standard, and expand the pool of qualified sustainability assurance practitioners through professional certification programmes.

### 5.3 Future Research Directions

Several directions for fruitful future research are identified in this paper. To determine whether regulatory mandates result in significant improvements in disclosure quality, board accountability, and ESG performance over time, longitudinal studies analysing the governance effects of mandatory sustainability reporting regimes—specifically, the EU CSRD and ISSB standards—will be crucial. Second, comparative cross-national studies that look at how sustainability reporting is implemented in various institutional contexts—such as developed versus emerging economies and civil law versus common law jurisdictions—would improve knowledge of how institutional environments mitigate the governance effects of ESG disclosure. Third, qualitative research using stakeholder consultations and board-level interviews would offer insightful information about the internal governance dynamics that influence sustainability reporting decisions and the elements that determine whether reporting is used for legitimacy management or true accountability. Fourth, there are plenty of opportunities for research at the nexus of technology, governance, and accountability in the developing field of digital sustainability reporting, which includes machine-readable disclosures, AI-assisted ESG data analysis, and blockchain-based sustainability claim verification.

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