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ESG Practices and Corporate Governance: Contemporary Perspectives, Challenges, and Implications for Sustainable Business Performance

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ABSTRACT

This review article examines the relationship between ESG practices and corporate governance, with emphasis on contemporary perspectives, implementation challenges, and implications for sustainable business performance. The article adopts a conceptual and literature-based review approach. It synthesizes recent research on ESG disclosure, corporate governance mechanisms, sustainability reporting, ESG ratings, greenwashing, and firm performance. The review is organized around conceptual foundations, theoretical perspectives, governance mechanisms, implementation barriers, performance implications, and future research directions. The review shows that ESG has shifted from a peripheral corporate social responsibility activity to a strategic governance concern. Corporate governance acts not only as one component of ESG but also as the institutional mechanism through which environmental and social objectives are implemented, monitored, and disclosed. Board oversight, diversity, audit quality, assurance, executive incentives, and shareholder engagement strengthen ESG accountability. However, ESG implementation remains constrained by inconsistent ratings, weak standardization, greenwashing, poor data quality, limited assurance, regulatory fragmentation, and short-term financial pressures. The article suggests that managers, boards, regulators, and investors should treat ESG as a strategic and governance-driven process rather than a symbolic reporting exercise. Strong governance can improve ESG credibility, stakeholder trust, risk management, and long-term value creation. The review contributes by integrating ESG and corporate governance literature into a coherent framework for understanding sustainable business performance.

KEYWORDS: ESG practices; corporate governance; sustainability reporting; sustainable business performance.

1. Introduction

Environmental, social, and governance practices have been put at the forefront of the modern conversations on corporate governance, sustainability, and long-term business performance. Historically, the concept of sustainability was viewed as an optional or PR exercise that was not part of the overall business strategy. But ESG has, over the years, evolved to become an organised system by which companies are assessed by investors, regulators, stakeholders, and society. This change can be explained by the increasing awareness of the fact that environmental risks, social responsibilities and the quality of the governance may affect the value of the firm, its resilience, trust of the stakeholders, and ability to access capital. The growth of ESG and CSR research in corporate finance also indicates that social responsibility is no longer a secondary issue to be examined in financial analysis, but rather is more and more related to investment choices, risk evaluation, and corporate valuation (Gillan et al., 2021).

The ESG disclosure has particularly gained significant importance due to the need of the stakeholders to have credible information on how the firms handle the risks and opportunities related to sustainability. The reporting of corporations is not restricted to the past financial performance anymore. It also incorporates more and more details about carbon emissions, resource utilisation, labour practices, board responsibility, business ethics, stakeholder interaction, and risk governance. It is indicated in the recent literature that the topic of ESG disclosure has turned into a significant field of scholarly interest due to its connection with transparency, firm performance, investor behaviour, and corporate accountability (Tsang et al., 2023). Bibliometric and meta-analytic data also indicate that ESG disclosure and performance of firms have become two intimately related lines of research, but the magnitude and direction of the relationship are still dependent on measurement tools, institutional environments, and firm-specific factors (Khan, 2022).

The modernity of ESG is also determined by the global forces that push companies to incorporate sustainability into governance and strategy. ESG practices have diffused due to regulatory reforms, climate-related risks, expectations of institutional investors, stakeholder activism, and international sustainability reporting frameworks. The institutional pressures, market expectations, stakeholder demands, and growing awareness of the fact that sustainability performance can be a determinant of corporate legitimacy and competitiveness are all global drivers of ESG

performance (Daugaard & Ding, 2022). These events suggest that the concept of ESG is not only a reporting designation but a more expansive governance and strategic management issue.

Corporate governance is very important in deciding whether ESG practices yield material results or are mere disclosures. The governance structures determine the manner in which firms establish ESG priorities, assign responsibility, track performance, verify information and communicate to the stakeholders. The quality of integrated and sustainability reporting can be enhanced by audit committees, board independence, internal controls, and assurance practices to enhance the oversight and decrease the information asymmetry (Raimo et al., 2021). Consequently, the success of ESG is determined by the adoption of sustainability policies, as well as the governance mechanisms that make it accountable, transparent, and implemented.

Meanwhile, ESG studies are still challenged conceptually and practically. These are inconsistent ESG measures, rating disparity, greenwashing, absence of similar disclosure, varying situations between developed and emerging market settings, and confusion over the causal relationship between ESG and firm performance. The most recent reviews note the growing body of research on ESG, corporate governance, disclosure quality, board attributes, and performance, although also citing the need to better conceptualise theory and to provide more robust empirical designs (Li et al., 2021). New research directions in corporate governance and ESG include board oversight, sustainability committees, shareholder activism, executive incentives, and the credibility of non-financial disclosure (Buchetti et al., 2025).

ESG integration has gained a lot of momentum, especially in the investment management field. Investors are gradually integrating ESG information in the construction of portfolios, risk assessment, stewardship, and long-term value analysis. Nevertheless, there are still arguments on how reliable the ESG data is, how comparable the ratings are, and to what level the financial outcomes are enhanced through the integration of ESG. The integration of ESG in investment management has been linked to both realistic opportunities and existing misunderstandings, particularly with regard to materiality, performance implications, and measurement validity (Kotsantonis et al., 2016). These discussions support the necessity to consider ESG as a disclosure practice but as a process of governance that is related to strategic decision-making.

It is on this backdrop that the current review focuses on the contemporary views of ESG practices and corporate governance, with a specific focus on their challenges and implications in sustainable business performance. The review states that ESG effectiveness relies on how robust the corporate

governance processes are that transform environmental and social commitments to measurable, credible, and strategically aligned outcomes. The synthesis of the conceptual underpinnings, theoretical insights, governance practices, implementation issues, and performance implications, the article helps to understand better how ESG-oriented governance could be used to facilitate a sustainable business performance in a more responsible and stakeholder-oriented corporate world.

2. Conceptual Foundations of ESG and Corporate Governance

ESG has become a multidimensional concept that can be used to evaluate firms not just on the basis of financial performance but also their environmental responsibility, social accountability, and quality of governance. Its development indicates a larger change in corporate assessment of the shareholder-focused narrow approach to corporate evaluation to a broader assessment of corporate behaviour, sustainability risk, stakeholder effect, and long-term value generation. In this context, the environmental aspect usually deals with the way firms deal with the natural environment, such as emissions, energy consumption, waste disposal, resource use, pollution, and climatic risks. The social aspect is concerned with the responsibility of the firm to the employees, customers, communities, suppliers and other stakeholders. It encompasses such issues as labour practices, workplace safety, diversity, human rights, customer welfare, and community engagement. The governance aspect is the frameworks and practices that maintain transparency, accountability, ethical behaviour, board supervision, shareholder protection, and responsible decision-making by firms.

Emerging sustainability ratings systems, non-financial disclosure systems, and the need for investors to receive similar sustainability information have also contributed to the development of ESG. ESG scores have become popular among investors, analysts, and other stakeholders to assess the sustainability profiles of corporations, and these scores do not necessarily depict firms in an objective or uniform way. To illustrate, the size of the firms may affect the ESG scores since larger firms have more resources to disclose, report, and be seen by the external environment, which could impact their rating results regardless of their actual sustainability performance (Drempetic et al., 2020). This implies that the ESG assessment is not just a technical measurement process but also a demonstration of reporting strength, visibility, and rating methodology. The ESG framework may be conceptualised using three dimensions that are interdependent, i.e., environmental responsibility, social accountability and the quality of governance, summarised in Table 1.

Table 1. Core Dimensions of ESG Practices

ESG Dimension	Core Focus	Illustrative Practices	Expected Governance Relevance
Environmental	Management of environmental risks and ecological impact	Carbon reduction, energy efficiency, waste management, pollution control, biodiversity protection, climate-risk disclosure	Requires board oversight, environmental risk monitoring, measurable targets, and transparent reporting
Social	Responsibility toward employees, communities, customers, and supply chains	Employee welfare, diversity and inclusion, health and safety, human rights, customer protection, community engagement	Requires stakeholder accountability, ethical policies, supply chain monitoring, and social performance metrics
Governance	Systems of direction, control, ethics, and accountability	Board independence, audit quality, executive compensation, shareholder rights, anti-corruption policies, and transparency	Provides the control structure through which ESG commitments are implemented and verified

2.1 ESG Practices

The ESG practices are the tangible policies, procedures, and activities by which companies respond to environmental, social, and governance issues. Environmental practices can be achieved through minimisation of carbon emissions, energy efficiency, cleaner technologies, waste reduction, biodiversity protection, and controlling risks associated with climate change. These social practices could be fair labour practices, health and safety of employees, diversity and inclusion, responsible supply chain management, customer protection and community development. The practices of good governance might consist of independence of boards,

disclosure, codes of ethics, anti-corruption mechanisms, quality of audit, accountability of executives and rights of shareholders.

Nevertheless, the way that rating agencies define, weigh and aggregate ESG indicators complicates the conceptualisation of ESG practices. Studies on ESG rating systems have indicated that rating agencies could use various sustainability principles and methodological assumptions, which could lead to varying ratings for the same firm (Escrig-Olmedo et al., 2019). This issue is also manifested in the wider divergence of ESG ratings, where disagreement might be caused by differences in scope, measure, and weighting and not the difference in the firms themselves (Berg et al., 2022). This inconsistency leads to conceptual ambiguity since ESG can seem like a standardised system when it is being operationalised differently in the rating systems.

Rating disagreement is also found to influence the interpretation of ESG practice in firms and capital markets. There is evidence that companies can be strategic in response to the ESG ratings since ratings affect the perceptions of external stakeholders, investor trust, and reputations (Clementino & Perkins, 2021). Meanwhile, disagreement in the ESG rating may decrease the transparency of sustainability signals and may complicate the process of investment decision-making, as the stakeholders may not be able to figure out which rating indicates the corporate responsibility more accurately (Billio et al., 2021). The problem is particularly relevant to the sphere of sustainable investing because the unpredictability of ESG ratings can influence portfolio construction, pricing of assets, and investor trust in ESG-based approaches (Avramov et al., 2022).

2.2 Corporate Governance

Corporate governance is a system where companies are guided, supervised, regulated and made answerable. It encompasses formal arrangements like the board of directors, audit committees, ownership, executive compensation frameworks, shareholder rights, internal controls, risk management systems, and disclosure. It also encompasses more soft factors like ethical leadership, organisational culture, accountability norms and quality of decision-making. Corporate governance has two related functions in terms of ESG. One, it is one of the three dimensions of ESG. Second, it is the institutional process by which the environmental and social commitments are transformed into strategy, policies, monitoring systems and measurable outcomes.

The role of governance is especially significant as the ESG information determines the market response and interpretation by investors. ESG-related news can have a price impact on stocks, yet

the magnitude and direction of the impact can be contingent on ESG ratings and the degree of disagreement over the ratings (Serafeim & Yoon, 2023). This implies that ESG information cannot work alone. Its authority lies in the systems of governance which generate, audit, reveal and relay information relating to sustainability. With a weak form of governance, ESG disclosure can be symbolic, fragmented, or hard to check. With good governance, ESG practices would be more integrated in the corporate strategy and reinforced with accountability mechanisms.

The ESG conceptual basis cannot thus be disconnected from the quality of governance. A corporate action can be viewed differently based on the reliability of the disclosure made by the firm, the independence of the oversight mechanisms and the uniformity of the external ratings. The subjectivity of ESG rating can also be seen through how corporate virtue can be rated differently by various rating providers, even when these companies are rated by the same provider (Christensen et al., 2022). This confirms the significance of governance as the binding factor between sustainability intention and sustainability performance. In this regard, governance is not merely part of ESG, but the architecture that will ensure the implementation, monitoring, verification, and reporting of environmental and social objectives in a credible manner. The association between the ESG practices and corporate governance can be framed as a systemic relationship where the governance assists in the execution, tracking, and sincerity of the environmentally and socially oriented practices, as shown in Figure 1.

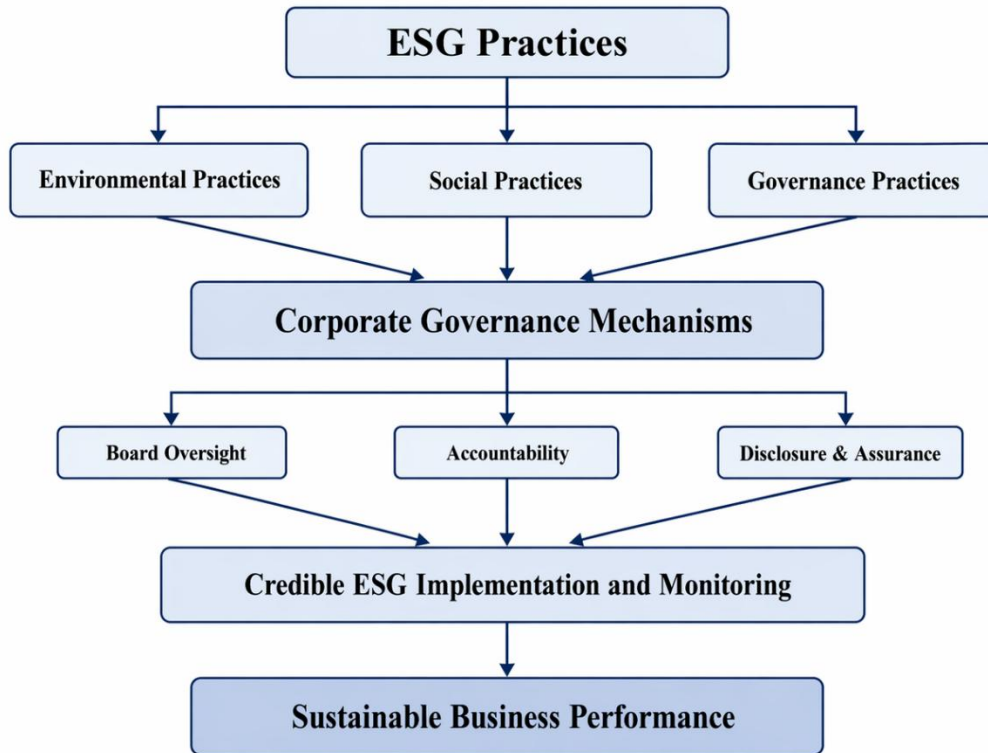


Figure 1. Conceptual Relationship between ESG Practices and Corporate Governance

3. Theoretical Perspectives Linking ESG and Governance

Corporate governance and ESG practices are intertwined, and the connection between the two can be explained in a number of theoretical approaches that are complementary. These views justify the reasons why companies implement ESGs, the way in which governance systems influence ESGs, and how sustainability-based governance can affect the long-term corporate performance. Instead of considering ESG as an independent reporting process, these theories place ESG as an integral component of the larger system by which firms address expectations of stakeholders, alleviate agency problems, sustain legitimacy, and address institutional pressures.

The stakeholder theory offers a valuable context for ESG since it expands the concept of corporate responsibility to a broader group of interested individuals. In this perspective, the companies will take into consideration the interests of the employees, customers, communities, suppliers, investors, regulators, and the natural environment. ESG practices turn into a process whereby companies acknowledge these interests and integrate them into strategic decision-making. The interest of socially responsible human resource management, employee welfare, workplace inclusion, and sustainable labour practices demonstrates how companies can align the management of internal stakeholders with overall sustainability (Chams & García-Blandón, 2019). Equally, the combination of corporate social responsibility and human resource management implies that

people-centred practices may promote organisational performance and the creation of sustainable value (Lombardi et al., 2020). The stakeholder theory thus assists in understanding why ESG is not merely external disclosure but rather influences internal policy, organisation culture and relationships with the affected groups.

The agency theory describes ESG governance in terms of managerial responsibility and control. In contemporary companies, managers can seek short-term goals, symbolic disclosure, or personal gain unless there are good governance structures that would harmonise their activities with the interests of the firms in the long term. Board oversight, good reporting, audit systems and monitoring of performance are needed to make ESG practices substantive instead of rhetorical. Corporate governance mechanisms are thus required to minimise information asymmetry and enhance the believability of ESG-related disclosures. The confidence of the corporate social responsibility reports exemplifies how the internal and external governance systems can enhance the credibility of sustainability information and alleviate doubts about opportunistic disclosure (García-Sánchez et al., 2022). The characteristics of boards also apply to this agency perspective because the diversity of boards and their ability to oversee environmentally related matters (carbon emission management) can be affected (Nuber & Velte, 2021). In this regard, the agency theory explains the role of governance structures in disciplining managerial behaviour and aligning ESG commitments with quantifiable results.

The legitimacy theory justifies ESG adoption in response to social expectations and reputational pressures. Companies exist in a social context in which their survival is determined by how well they are viewed as responsible, transparent, and in line with the norms of society. ESG disclosure enables companies to report environmental and social accountability, especially in situations where the stakeholders require higher accountability. Corporate environmental disclosure in emerging markets is influenced by the governance structures and general transparency and accountability expectations (Gerged, 2021). ESG disclosure may also impact market perceptions by minimising uncertainty and indicating responsible behaviour, particularly in situations like initial public offerings, where investors are exposed to significant information asymmetry (Reber et al., 2022). The theory of legitimacy is thus useful in explaining why companies might use ESG practices in order to retain credibility, cope with reputational risk and gain the approval of the stakeholders.

The theory of institutionalism also goes on to justify ESG adoption by focusing on the presence of external rules, norms and pressures. Companies do not exist in a vacuum, but they are affected by policies, industry norms, shareholder demands, sustainability, and global reporting systems. These institutional forces push companies to embrace ESGs to be competitive, acceptable and similar in their respective industries. The growing significance of ESG in terms of shareholder value indicates the interrelation of market expectations and sustainability-focused corporate behaviour (Zumente & Bistrova, 2021). There is also evidence of the connection between corporate social responsibility and financial performance, indicating that firms can act on the institutional expectations since responsible practices are becoming linked to strategic and economic performance (Awaysheh et al., 2020). Institutional theory thus associates the adoption of ESG with broader changes in business norms, regulatory expectations and investor evaluation frameworks. All these theoretical views offer a unified foundation to the study of ESG and governance. The stakeholder theory describes the wide responsibility of businesses, the agency theory describes governance and accountability, the legitimacy theory describes the necessity of social approval, and the institutional theory describes the power of external norms and pressure. Combined, they demonstrate that ESG practices can only be meaningful when they are backed by governance structures that translate sustainability expectations into strategy, oversight, disclosure and performance. The theoretical lenses of this review can explain the use of ESG, governance oversight, and the impact on sustainability in a complementary manner, as presented in Table 2.

Table 2. Theoretical Perspectives Linking ESG Practices and Corporate Governance

Theory	Core Argument	Relevance to ESG	Relevance to Corporate Governance
Stakeholder theory	Firms are accountable to multiple stakeholder groups, not only shareholders	Explains why firms address environmental, social, employee, customer, and community concerns	Encourages boards to consider wider stakeholder interests in decision-making

Agency theory	Governance mechanisms reduce managerial opportunism and information asymmetry	Explains the need for reliable ESG disclosure and measurable sustainability targets	Highlights board monitoring, audit quality, assurance, and incentive alignment
Legitimacy theory	Firms seek social acceptance by aligning with societal expectations	Explains ESG disclosure as a response to public, regulatory, and stakeholder pressure	Emphasises transparency, accountability, and reputational risk management
Institutional theory	Firms respond to regulatory, normative, and industry pressures	Explains ESG adoption through standards, investor pressure, and reporting frameworks	Shows how governance practices are shaped by external rules and norms

4. Contemporary Perspectives on ESG Practices

The practice of ESG has been shifting towards the periphery of corporate social responsibility to the heart of strategic business decision-making. Previous methods tended to see sustainability as a voluntary reporting process or as a reputational complement to financial performance. Modern ESG, though, is more directly related to governance, risk management, investment assessment, innovation, regulatory adherence, and long-term competitiveness. This change represents the increased demand that not only must companies report on sustainability-related issues, but also show how ESG factors are integrated into corporate strategy, operations, and accountability frameworks.

The growth of the ESG disclosure research and practice is one of the significant modern trends. ESG disclosure is a major discipline as it is becoming more important due to the need of investors, regulators, customers and other stakeholders to have reliable information on the environmental, social and governance performance. The current studies present an increase in academic interest toward ESG disclosure, with the themes of reporting quality, firm performance, investor relevance, sustainability accountability, and institutionalisation of ESG practices (Khamisu & Paluri, 2024). It means that ESG is not considered a purely moral or philanthropic issue anymore. It has now

been looked into as the quantifiable and reportable part of corporate behaviour that can determine stakeholder trustworthiness and capital market assessment.

Contemporary ESG practice has also been made to focus on sustainability reporting standards. The emergence of reporting systems indicates the necessity of comparability, transparency, and consistency of information on sustainability. The Global Reporting Initiative has significantly influenced sustainability reporting, and ongoing discussions indicate that the processes of standard-setting should be refined and that reporting should be aligned with the overall accountability goals (de Villiers et al., 2022). Meanwhile, the new institutional actors are gradually influencing sustainability reporting, especially in Europe, where regulators, standard-setters, investors, and professional bodies have gained a significant role in the definition of disclosure expectations (Giner & Luque-Vílchez, 2022). The developments indicate that ESG reporting is getting more formalised, observable and institutionalised.

ESG has also become a strategic issue due to the interest of investors. Investment screening, portfolio building, stewardship and risk evaluation are now encompassed in ESG ratings, indices and sustainability indicators. The Eurostoxx50 evidence indicates that ESG index inclusion might be applicable to stock returns behaviour, which implies that markets might be using ESG-related information in valuation (La Torre et al., 2020). Such market relevance prompts companies to consider ESG as a communication tool in investor relations, access to capital, and as a financial positioner. With more investors evaluating ESG risks and opportunities, companies are being pressurised to enhance sustainability performance and the credibility of the corresponding disclosures.

The other significant modern approach is related to the relationship between the ESG and digital transformation. The role of Industry 4.0 technologies, data systems, automation, and digital monitoring tools in the implementation of ESG is increasingly significant due to the ability to enhance the ability of firms to gather, process, verify and disseminate sustainability data. Financial performance has been associated with corporate transformation towards Industry 4.0, and ESG practices affect this connection (Alkaraan et al., 2022). This implies that ESG and digital transformation can be mutually supportive as firms apply the capacity of technology to enhance the efficiency of their resources, the transparency of their operations, risk management, and innovation towards sustainability.

Regardless of these advancements, the modern-day ESG practice continues to be troubled by symbolic disclosure and greenwashing. Companies can adopt the ESG language, sustainability reports or selective disclosure to build a responsible image without significant implementation into business practices. Greenwashing within the disclosure of ESG has been defined as a severe issue since it diminishes trust in the stakeholders and lowers the reliability of sustainability reporting (Yu et al., 2020). Recent bibliometric data also indicate that there is a growing academic and regulatory interest in greenwashing prevention, especially in the context of the quality of ESG disclosures, assurance, and accountability frameworks (Sneideriene & Legenzova, 2025). This issue confirms the significance of governance-based ESG, whereby assertions should be backed by quantifiable performance, board transparency, validation and reporting.

The modern-day ESG practices are also differentiated by the sector and institutional settings. Companies in the most polluting sectors might be under more pressure to disclose climate change and environmental performance, and financial institutions might be under more pressure to lend responsibly, manage portfolio risk, and be stewards. In the same way, in developed markets, ESG uptake can be influenced by sophisticated regulation and investor activism, but in emerging markets, institutional capacity, disclosure infrastructure, ownership concentration, and disparate enforcement all can be limiting factors. In general, the modern view of ESG can be characterised by the shift of symbolic communication on sustainability to strategic, measurable, and governance-focused integration of ESG.

5. Corporate Governance Mechanisms for ESG Integration

Corporate governance mechanisms play a central role in determining whether ESG practices remain symbolic commitments or become embedded within corporate strategy, risk management, disclosure, and performance evaluation. ESG integration requires structures that define responsibility, monitor implementation, verify information, and hold managers accountable for sustainability outcomes. Governance therefore operates as the internal architecture through which environmental and social objectives are translated into board agendas, managerial incentives, reporting systems, and stakeholder communication. The main governance mechanisms that support ESG integration are summarised in Table 3.

Table 3. Corporate Governance Mechanisms for ESG Integration

Governance Mechanism	Role in ESG Integration	Expected Contribution to ESG Accountability
Board independence	Strengthens objective oversight of sustainability strategy and disclosure	Reduces managerial opportunism and improves the credibility of ESG decisions
Board diversity	Brings wider perspectives, stakeholder sensitivity, and varied expertise	Improves board deliberation on environmental and social risks
Sustainability committee	Provides specialised board-level attention to ESG matters	Enhances monitoring of ESG targets, policies, and implementation
ESG-linked executive compensation	Connects managerial incentives with sustainability goals	Encourages long-term decision-making and reduces symbolic ESG commitments
Audit committee and internal control	Reviews the reliability of financial and non-financial information	Improves ESG data quality, reporting discipline, and risk control
External assurance	Verifies ESG reports and sustainability claims	Reduces greenwashing risk and improves stakeholder confidence
Shareholder activism	Pressures firms to improve ESG performance and disclosure	Strengthens accountability through voting, engagement, and stewardship

One of the most significant governance mechanisms in terms of ESG integration is board composition. Boards affect strategic priorities, risk management, executive supervision and quality of non-financial reporting. Having a board that is more knowledgeable and experienced, and more sensitive to the stakeholders, could be better placed to spot the risks associated with ESG and incorporate sustainability into long-term decision-making. It has been observed that board composition affects sustainability performance, which implies that the board structure is not only pertinent to financial governance but also to environmental and social performance (Naciti, 2019). Furthermore, the environmental performance can be influenced by the board characteristics and

the quality of governance at the country level, which demonstrates that the firm-level governance operates in a more extensive institutional framework (Orazalin & Mahmood, 2021).

Diversity of the board is especially applicable due to the fact that ESG concerns tend to require a wider insight than traditional financial management. Deliberation can be enhanced by gender diversity, professional diversity, and independence to minimise groupthink and improve attention to the concerns of the stakeholders. The data on Italian listed companies reveals that board heterogeneity is linked with the outcomes on the ESG scale, which means that diverse boards can be used in the context of sustainability-oriented governance (Cucari et al., 2018). More data indicate that board gender diversity affects ESG performance, but its impact can be moderated by leadership concentration, e.g. CEO duality (Romano et al., 2020). Board gender diversity has also been associated with ESG performance in the banking industry, with ESG controversies being able to moderate the association (Shakil et al., 2021). These results indicate that diversity is important, and its performance is conditional on the broader governance environment whereby board members maintain oversight.

ESG integration is also influenced by leadership power and managerial capability. In cases where the power of the CEO is too great, it may undermine the power of the board to check on the decisions made by the CEO on sustainability. This is pertinent since ESG involves long-term undertakings which can be incompatible with short-term managerial incentives or reputational interest. Moderation of CEO power between the ESG performance and the financial performance elucidates the significance of balancing power and checks within the board (Velte, 2019). Meanwhile, the sustainability disclosure can be supported by the competence of managers, as competent managers are aware of the impacts of the ESG activities on the stakeholder expectations, quality of reporting, and corporate legitimacy. The CEO skill has also been demonstrated to affect sustainability disclosures with the help of corporate social responsibility performance, indicating that managerial quality can influence disclosure content and communication of ESG practices (García-Sánchez et al., 2020).

Another mechanism that can help to align managerial decisions with the ESG objectives is executive compensation. When compensation designs have sustainability-related goals, managers will tend to consider ESG as a strategic performance goal and not as a reporting side task. This correspondence is particularly vital when ESG investments have long-term payoffs, unpredictable returns, or short-term profit v. sustainable value-generation trade-offs. The UK evidence shows

that there is a correlation between the pay of CEO and the assurance of sustainability reporting, where executive pay can be linked to the credibility and governance of sustainability reporting (Al-Shaer & Zaman, 2019).

ESG accountability is enhanced through audit committees, internal controls, and assurance mechanisms to enhance the reliability of non-financial information. The usefulness of ESG disclosure is only in cases where the stakeholders are able to believe the information being reported. Firm value, risk and agency costs have been linked to non-financial disclosure, which suggests that sustainability information may impact market evaluation and governance-related results (Rossi & Harjoto, 2020). The assurance mechanisms also help to minimise the information asymmetry by exposing the claims on ESG to external checks. It is especially relevant in the situation when the firms are exposed to greenwashing risks, irregular reporting patterns, or low stakeholder trust.

ESG integration is also affected by ownership structure and shareholder activism. Long-term shareholders, institutional investors, and active owners can coerce firms to enhance sustainability performance, enhance the quality of disclosures and align governance practices with environmental and social performance. Such pressures push companies to go beyond compliance and to integrate ESG into mainstream decision-making. In general, the successful implementation of ESG is reliant on governance mechanisms that ensure the integration of board control, diversity of opinions, equal leadership authority, plausible disclosures, aligning incentives, and stakeholder responsibility. The systems of governance thus convert ESG into a voluntary declaration of responsibility into a disciplined regime of strategic execution and quantifiable performance.

6. Key Challenges in ESG Implementation and Governance

The implementation of ESG is associated with a number of challenges and undermines the credibility, comparability, and strategic value of sustainability-oriented governance. Even though ESG has turned out to be the focus of corporate reporting and investment decision-making, its overall success is determined by the ability of companies to transform general sustainability promises into verifiable, quantifiable, and responsible actions. The key challenges are connected with greenwashing, inconsistent ratings, low assurance, ineffective data quality, regulatory fragmentation, and contradictions between short-term financial goals and long-term sustainability goals.

One of the greatest issues in the implementation of ESG is greenwashing. It arises when companies make positive environmental or social assertions without corresponding substantive alterations in business practices. Greenwashing in ESG reporting may also mislead the stakeholders by making a company appear more sustainable than it is (Yu et al., 2020). Previous research also reveals that greenwashing can be associated with both false communication and selective disclosure, which can hardly be differentiated by the stakeholders as either a serious sustainability performance or a mere symbolic management of impressions (Lyon & Montgomery, 2015). The given issue is further complicated by the fact that greenwashing is not necessarily about willful misrepresentation. It can also crop up in the form of ambiguous promises, imprecise measurements, improper internal regulation, or lack of plausible authentication. Greenwashing behaviour can also be affected by managerial attitudes and organisational orientations, which implies that the credibility of ESG lies in part in the ethical and strategic priorities, which are integrated into the governance systems (Roulet & Touboul, 2015).

The second significant issue is the unstandardization of ESG measurement. ESG seems to provide a shared language of sustainability assessment; however, in reality, rating agencies tend to employ various indicators, weighting systems, data sources, and methodological assumptions. This yields a significant divergence between ESG ratings, and investors, regulators, and firms have a hard time deciding which score best captures sustainability performance (Berg et al., 2022). The issue is not a technical one only. When there is a wide range of ESG ratings, the principle of corporate sustainability turns fragile and is subject to contradictory interpretations. Studies of ESG ratings indicate that ratings of corporate virtue tend to be based on methodological decisions by the evaluator, leading to doubts regarding the actual contents of ESG scores (Christensen et al., 2022). Other factors that are influenced by rating disagreement include sustainable investment and corporate governance. ESG ratings are gaining popularity with investors to help them build portfolios, risk measurements, and long-term value. Yet, the uncertainty of ESG ratings may undermine the trust in sustainable investing, as it becomes more difficult to find the difference between well-performing companies and those that are rated well by the specific agencies (Avramov et al., 2022). It is also demonstrated that there is disagreement in ESG ratings, which may have implications for performance evaluation and investment (Billio et al., 2021). In the case of firms, such inconsistency can cause strategic confusion in that the improvement of a single

rating might not lead to the other. As a result, managers can focus on management rating, as opposed to meaningful ESG change.

The other challenge is associated with ESG assurance and data reliability. ESG reporting frequently relies on data gathered on an interdepartmental, inter-subsidary, inter-supplier, and external relationship basis. This poses issues of boundary setting, quality of measurement, comparability, and verification. These weaknesses can be mitigated through assurance which enhances confidence in reported information, although the practice of assurance is not uniform across firms and jurisdictions. Recent studies emphasise the ESG assurance as a governance reaction towards corporate greenwashing, indicating that verification systems can enhance the credibility of disclosures and decrease symbolic reporting (Bu et al., 2024). Nonetheless, assurance should be self-assured, technically effective, and effectively linked to material ESG risks.

ESG implementation is further complicated by regulatory fragmentation. The firms can encounter various disclosure standards, rating requirements, investor expectations, and jurisdiction-based rules. This has the potential to increase compliance costs and decrease comparability between markets. Bibliometric data on sustainability reporting and greenwashing demonstrate that the discourse varies between G7 and non-G7 settings, which suggests that the institutional settings influence the problem of ESG reporting and reactions to it (Sundarasan et al., 2024). Other obstacles might be encountered in emerging markets, such as less enforcement, less data infrastructure, less expertise on the board, and greater implementation costs.

Accountability in the supply chain is another challenge. Most ESG risks fall outside the firm's perimeter, particularly when it comes to Scope 3 emissions, labour practices, human rights, and supplier practices. Companies can reveal their aggressive sustainability targets, but without credible oversight of both upstream and downstream operations. This undermines ESG accountability and puts firms at risk of reputational, regulatory, and operational risks.

Lastly, ESG governance should resolve the conflict between shareholder value and that of stakeholders. Sustainability investments can be long-term in nature, where the financial markets might expect short-term payoffs. In case the governance structures focus on short-term profitability, ESG programs can be financed inadequately, selectively reported, or deemed as reputation management. These issues indicate that the result of ESG credibility lies not in the fact that more information is reported but in the construction of the governance systems that can be

verified, be accountable, committed to the strategies, as well as be performance-oriented toward longer terms.

7. Implications for Sustainable Business Performance

ESG practices and corporate governance are relevant to sustainable business performance as it affects financial performance as well as the overall organisational performance. Sustainable business performance does not exist in terms of profitability or market valuation. Also encompassed are resilience, trust by the stakeholders, ability to innovate, reputational strength, regulatory legitimacy, and long-term competitiveness. ESG thus comes across as a strategic performance model where it is backed with plausible governance, quantifiable objectives and accountability systems.

Financially, ESG performance can have an impact on firm value and profitability through enhanced risk management, enhanced investor confidence, diminished information asymmetry, and is indicative of responsible corporate behaviour. The evidence shows that ESG performance can positively affect firm value and profitability, and the sustainability-oriented practices can affect economic outcomes in the case of their incorporation into corporate strategy (Aydoğmuş et al., 2022). The ESG practices are also related to the performance of firms in international evidence, but the strength and direction of this association may differ depending on countries, industries, and the institutional context (Shaikh, 2022). The results imply that the concept of ESG is not to be perceived as the cost of compliance but as the potential strategic and financial benefit.

Financial resilience in times of crisis may also be affected by ESG. The COVID-19 pandemic offered a valuable background to analyse the idea of stronger environmental and social aspects that allowed firms to be more resilient to market disruption. The market crash due to COVID-19 has provided evidence that environmental and social stocks were resilient during the crisis, which implies that sustainability features could assist firms in remaining investor-confident during crises (Albuquerque et al., 2020). Likewise, Chinese evidence demonstrates that ESG performance was in effect during the financial crisis brought about by COVID-19, which is why some believe that ESG could serve as a resilience-enhancing mechanism in volatile market environments (Broadstock et al., 2021). ESG ratings have also been linked to stock performance in the COVID-19 crisis, which implies that investors can use ESG data as an indicator of corporate quality, responsibility, or risk readiness (Engelhardt et al., 2021).

Nevertheless, the relationship between ESG and performance is not inherent and positive. There is some evidence that ESG alone might not be sufficient to cushion firms in a crisis situation. COVID-19 studies indicate that ESG was not always the most effective at protecting stocks, whereas in other instances, intangible assets provided a more effective safeguard (Demers et al., 2021). On the same note, the current data on corporate social responsibility in the pandemic suggest that CSR was not always able to offer crisis protection, so it is necessary to ask whether all types of ESG-related activity bring with them quantifiable financial gains (Bae et al., 2021). This means that ESG performance should be considered with keen interest because the symbolic actions or loosely implemented ESG measures may not yield sustainable business results.

Another significant implication is presented by investor behaviour. Under stress in the market, the flows of funds and the performance of mutual funds can indicate how investors are inclined to prefer responsible or strong investments (Pástor & Vorsatz, 2020). Market risk can also be influenced by ESG disclosure due to the transparency and interpretation by investors. The crash risk and ESG disclosure evidence indicate that sustainability-related reporting might be applicable to downside risk and financial market stability (Pereira Da Silva, 2022). Such results suggest that ESG data can influence the attractiveness to investment, risk perception, and capital market reactions.

In addition to financial performance, ESG also leads to non-financial performance through reinforcement of corporate reputation, stakeholder participation, employee loyalty, customer loyalty, ability to innovate and legitimacy. Companies that handle their environmental and social issues with credibility have higher chances to develop credibility with their stakeholders and retain relational capital over time. Corporate economic sustainability could also be reflected in ESG performance via indicators such as sustainable growth, which hints at the fact that ESG can be linked to the ability of the firm to sustain long-term development as opposed to short-term profitability only (Lin, 2024).

Corporate governance plays a crucial role in evaluating ESG to enhance sustainable business performance. The ESG-performance relationship can be mediated or moderated by strong governance by making sure that ESG practices are substantive, measurable, externally credible, and strategically objective-oriented. In the absence of governance regulation, ESG can be a paper-thin or lack a connection to business performance. ESG can help reduce risks, create resilience, innovate, create legitimacy, and generate long-term value with good governance. The sustainable

business performance, therefore, is not only based on the need to embrace the practice of sustainability but also to instil it in responsible governance systems that transform sustainability promises into long-term organisational performance. ESG-oriented governance has a positive impact on sustainable business performance because it follows a financial and a non-financial route, as illustrated in Figure 2.

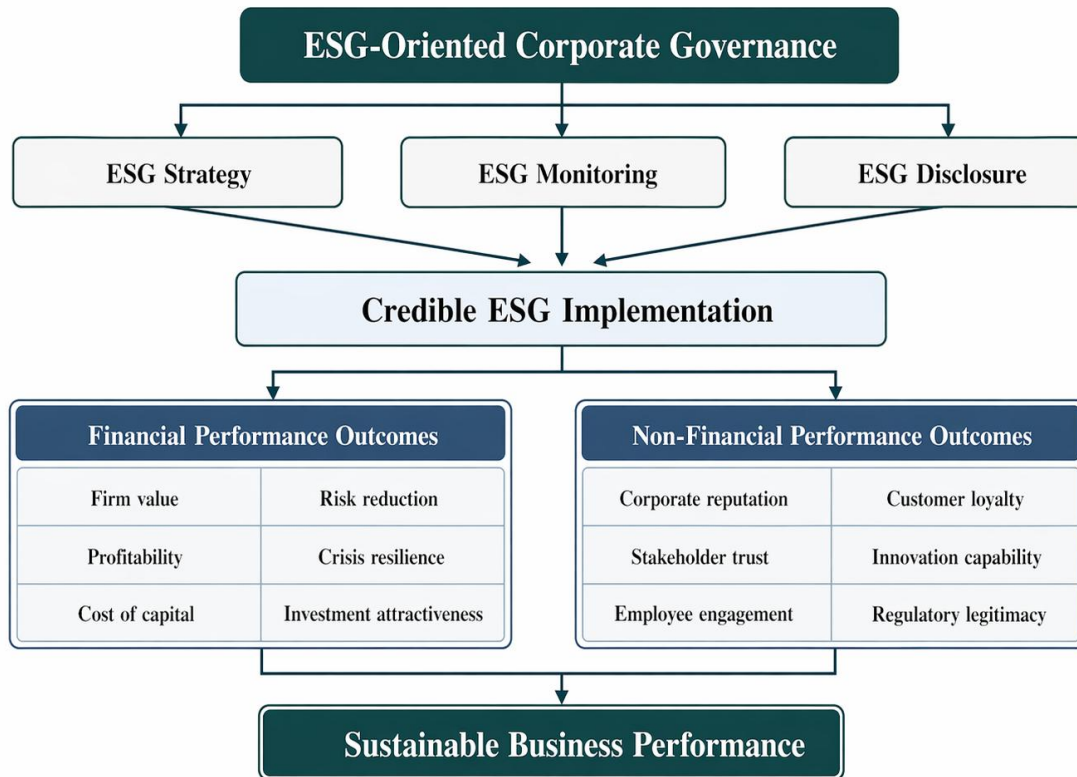


Figure 2. ESG-Oriented Governance and Sustainable Business Performance Pathways

8. Research Gaps and Future Directions

Although the field of ESG and corporate governance is rapidly growing, there are still a number of gaps in the research. The inconsistency in the measurement of ESG is one of the major limitations. The available literature tends to use ESG scores and ratings, but such ratings vary among providers due to the different choice of indicators, the weighting techniques, data source and logic of assessment. This makes it hard to compare results between studies and makes it questionable that ESG scores actually represent sustainability performance and not disclosure intensity, and the methodology of rating. More transparent, sector-sensitive and materiality-based measurement methods of ESG should thus be developed in the future.

The second gap is related to excessive dependence on secondary ESG ratings. Ratings are also helpful when it comes to large-sample studies, but can mask firm-specific governance, board-level decision-making, and the reality of the quality of ESG implementation. The next research should incorporate rating-based data with content analysis, interviews, case studies, assurance reports, and internal governance indicators. This would give further understanding on whether ESG practices are substantive or symbolic.

Third, the literature leaves scant causal evidence on the relationship between ESG and governance and performance. Most research finds relationships between ESG activities and firm performance, but less research indicates whether ESG enhances performance or whether more successful firms are just able to allocate more resources to ESG. Longitudinal studies, natural experiments, and difference-in-differences designs, as well as other causal designs, should be utilised in future research to understand the impacts of ESG reforms on firm value, risk, resilience and stakeholder outcomes in the long run.

Fourth, the emerging markets and SMEs are underexplored. Much of ESG studies is done on big listed companies in developed economies where the disclosure systems and investor pressure are relatively well developed. Research in the future should focus on understanding the functioning of ESG governance in settings that have weaker institutions, concentrated ownership, a lack of assurance infrastructure, and resource constraints. SMEs also should be considered more closely since their ESG issues are not similar to those of big organisations.

Fifth, the expertise of boards on ESG is poorly researched. Future studies ought to explore the effect of sustainability knowledge, board training, ESG committees, gender diversity, and stakeholder representation on ESG quality. Further effort is also required in relation to ESG-based executive pay, specifically, whether these incentives can create real sustainability changes or stimulate goal-setting.

Lastly, upcoming research must investigate digital technologies to ensure ESG, govern sustainability in the supply chain, Scope 3 accountability, and stakeholder-centric governance models. These guidelines would take ESG research to the next level beyond the disclosure and rating debate to understanding how governance systems can be applied to measure, make credible, and long-term sustainable business performance.

9. Conclusion

This review has pointed out that the practices of ESG and corporate governance are interwoven extensively in influencing sustainable business performance. ESG has grown to become a peripheral corporate responsibility initiative to a strategic framework with which companies are managing environmental risks, social responsibilities, stakeholder expectations and value creation on a long-term basis. Nevertheless, ESG practices are only meaningful when they are backed by good governance structures that are accountable, transparent, and ethical, and credibly implemented. As discussed, corporate governance is not just a single element of ESG. It is the institutional framework within which environmental and social goals are converted into corporate strategy, board supervision, incentives to managers, disclosure systems and performance measurement. Proper governance practices, such as the independence of the board, board diversity, audit quality, ESG assurance, shareholder engagement and executive accountability, enhance the legitimacy of the ESG practices and mitigate the risk of the symbolic disclosure or greenwashing. Concurrently, ESG is still confronted by inconsistent measurement, rating dispersion, poor data quality, inadequate assurance, fragmentation of regulations and a conflict between short-term financial imperatives and long-term sustainability objectives. These issues show that ESG is not something that can be handled as a mere reporting exercise. It entails material organisational dedication and governance frameworks that can oversee, confirm and enhance sustainability results. In general, the ESG-based governance can lead to financial resilience, reputational strength, trust of stakeholders, innovation ability, and long-term competitiveness. Nevertheless, this is not an automatic relationship. The performance of sustainable business relies on the degree of legitimacy of ESG practices, which are measurable, strategic, and institutionalised. The success of the corporation in the future will more and more require the transition to the next level of symbolic ESG reporting to governance-based sustainability, which will involve the integration of profitability with environmental responsibility, social value generation, and open responsibility.

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