

Environmental, Water Management, Social and Governance Reporting: Examine the Growing focus ESG Reporting and its implications for Companies in Terms of Transparency and Sustainability

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Abstract: This paper examines the rising emphasis on Environmental, Social, and Governance (ESG) reporting within the corporate sector. It investigates the drivers behind this surge, its implications for business transparency, sustainability practices, and the challenges and opportunities it presents to companies. The study leverages a combination of qualitative and quantitative research methodologies, including a review of existing literature, case studies, and data analysis, to provide a comprehensive overview of the current ESG reporting landscape and its future trajectory. ESG reporting refers to the practice of companies disclosing information about their environmental, social, and governance performance. It has gained significant traction in recent years as stakeholders, including investors, customers, and employees, have become more interested in understanding a company's impact beyond just financial metrics. The growing focus on ESG reporting has several implications for companies. Firstly, it enhances transparency by requiring companies to disclose their efforts and performance in areas such as carbon emissions, diversity and inclusion, employee welfare, and ethical business practices. This transparency helps stakeholders make more informed decisions and hold companies accountable for their actions. Secondly, ESG reporting promotes sustainability by encouraging companies to assess and address their environmental and social impacts. By measuring and disclosing their ESG performance, companies can identify areas for improvement, set targets, and implement strategies to become more sustainable and responsible. Furthermore, ESG reporting can have positive implications for a company's reputation and brand image. Companies that prioritize ESG factors and demonstrate a commitment to sustainable practices are often seen as more trustworthy and attractive to socially conscious consumers and investor.

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Introduction:

The social aspect of ESG focuses on a company's relationships and responsibilities towards its employees, suppliers, customers, and the communities where it operates. This includes labor practices, employee health and safety, diversity and inclusion, and the impact of its operations on local communities. Transparent reporting in this area is critical as it demonstrates a company's commitment to fair practices and its role in social welfare, affecting its reputation and consumer trust. Despite its benefits, ESG reporting presents challenges, primarily related to the lack of standardization in what should be reported and how it should be measured. Companies often face difficulties in interpreting what is required of them and may struggle with the cost of implementing new reporting systems. Nevertheless, the trend towards increased ESG reporting looks set to continue, driven by regulatory changes, investor demands, and a growing public insistence on sustainability and ethical business practices. As this area evolves, we can expect to see

more robust frameworks and standards emerging, making ESG reporting not just a compliance exercise but a fundamental component of strategic business planning and communication. This evolution will further embed sustainability into the core of business practices, reflecting a shift in how companies operate and are evaluated in the global market.

Literature Review:

Sustainable development was first defined by World Commission on Environment and Development as development that meets “the needs of the present without compromising the ability of future generations to meet their own need” in 1987 and enterprises should understand how corporate sustainability is constructed in a specific context and how the concept of sustainable development can be applied to the business level and what enterprises should do when they want to become sustainable. Corporate social reporting has been the subject of substantial academic accounting research for several decades, its implications have also

been proved with positively correlated with the financial performance.

The current practice to report sustainability performance for most organizations are to publish a sustainability report, either in conjunction with, or separately from, the company's annual report but the sustainability reports are not often integrated with conventional economic reports, tend to focus on the positive information, and focus on descriptive outcomes. The pressure for corporate accountability is increasing. More companies are voluntarily to produce ESG report in addition to its financial reports in order to provide more relevant information to assess its financial and non-financial performance. Recently, there is an increasing demand for integrated reporting which companies are required to publish a report to contain both sustainability and financial statements in order to reduce agency costs, political costs and information asymmetries and integrated reporting provides a broader explanation of performance.

The Social and Environmental Accounting (SEA) literature provides a range of views and arguments on and around the importance of corporations adhering to ESG expectations of the communities within which they operate but seldom of these consider the motivations behind corporate environmental reporting, deterrence and avoidance of civil regulatory action is proposed as an alternate motivation for such reporting, and an area for future research. ESG reporting influences both financial and environmental performance of a company. Weber analyses the ESG reporting of China Top 100 Green Companies and concludes that good ESG reporting contributes better financial returns and improvement of corporate environmental performance. Chen, Feldmann & Tang indicate that the categories of Human Rights, Society as well as Product responsibility display a significant and positive correlation with the return on equity.

One of the key issues is how to assess the quality of ESG reports. Currently there are many international institutions such as Global Reporting Initiative (GRI), United Nations Conference on Trade and Development (UNCTAD), The European Federation of Financial Analysts Societies (EFFAS) and regulatory bodies such as Hong Kong Stock Exchange (HKEx) develop the Key Performance Indicators (KPIs) for ESG reporting. Different organizations including United Nations, G20, OECD, European Union, and different countries such as Netherlands, France, Germany, United Kingdom, India, Japan, Philippines, and Vietnam etc. initiate the disclosure of ESG information in reporting. This creates the problems of lack of consensus, and companies may select indicators which only provide positive and favorable results. Therefore, it is important to establish a unique set of ESG key performance indicators to

support investors' decisions. Such KPIs creating a reliable method of measuring the performance of ESG, where the effect of more complex factors can be considered a prerequisite for success not only in decisions, but also with regard to corporate management, possibility for comparison, competitiveness of companies, etc. by address ESG problems and corporate governance in relation to the measurement of business performance, as well as its continued success (sustainability success). Ondoro suggests the use of Balanced ESG framework to measure the performance of an organization which industry practitioners may find this useful as this exposes external and internal as well as long term and short term perspectives of performance. Without an agreed measurement basis, it is difficult to assess the ESG performance of a company.

Although the body of empirical literature on the ESG and financial performance of a company link is vast, it remains inconclusive. There are studies reporting positive, negative as well as neutral relationships between ESG and financial performance of a company. Many researchers find socially responsibility is to be positively related to an organizations' financial and social performance. Russo and Fouts have identified CSR as a source of competitive advantage which a firm can create a sustainable competitive advantage and therefore engaging in corporate social responsibility issues could be a worthwhile consideration for a firm's management.

Bernardi and Stark find evidence of a strengthened relationship between ESG, environmental and governance disclosure levels and analyst forecast accuracy following the introduction of Integrated Reporting for both financial services firms and those from the other sectors. Numerous positive benefits are asserted including better internal resource allocation decisions external market benefits such as meeting the needs of mainstream investors who want Environmental, Social and Governance (ESG) information. But some researchers find that there is a short-term negative impact on financial performance when firms applied the sustainability strategies which are officially required. Same as traditional financial reporting, ESG reports can only provide historical information to its users and hence the ESG information may not be relevant to investment decision. In some countries, the ESG reports are not statutory reports or corporations are only required to provide explanation of why it cannot comply with the statutory requirements (e.g. the codes of provisions). This makes the investors not able to assess the company's ESG issues.

Some researchers argue that socially responsible initiatives create additional costs that may have negative impact on companies' financial performance

and hence become less competitive than those less socially responsible organizations. Lambertson criticizes that corporate impacts on the environment can be changed by the provision of relevant information to stakeholders such as businesses pass environmental taxes on to consumers to partially offset the under pricing of economic goods and services from the failure to include environmental and social costs in market prices. Kalinowski finds out that there is no clear correlation between sustainability support variables and stock market size variables. Adams & González argue that further research engaging with organizations is needed in order to identify how accounting and management systems might reduce their negative sustainability impacts.

Although there has become available a greater quantity of ESG information, many companies display a lack of understanding about how to approach integrated reporting, often presenting reports with excessive repetition of information. Ho [1] states ESG reporting remains inadequate for financial analysis, even as the quantity of publicly available ESG information has grown exponentially. She explains the deficiencies of public ESG information are a side-effect of the flexibility the current mix of voluntary and mandatory ESG reporting provides. Based on different views on the relationship between the ESG and financial performance of a company, there is no conclusion regarding the impact of ESG information on a company's financial performance.

Result Analysis:

Companies measure and report on their performance in environmental, social, and governance (ESG) aspects using the ESG reporting approach. Since investors and other stakeholders demand more responsibility and transparency from businesses, these elements are becoming increasingly significant in today's corporate environment.

Environmental, Social, Governance reporting provides a framework for corporations to review and disclose their performance in these areas to stakeholders. Sustainability reports, annual reports, or other types of public disclosure might be used for this. Benchmarking against competitors in the industry and establishing development goals are other aspects of ESG reporting.

ESG reporting is becoming more significant as businesses realize the importance of sustainability and ethical business conduct. Consumers expect more goods and services from companies committed to sustainability and social responsibility, and investors increasingly want to invest in firms with high ESG performance. Also, regulatory agencies are starting to demand ESG reporting as a prerequisite for conducting business in specific sectors or areas.

Companies utilize the ESG reporting framework to assess and communicate their performance of environmental, social, and governance concerns. Companies that adopt ESG reporting may boost their reputation, draw investment, and contribute to a more just and sustainable society while improving their performance in these areas.

Why Is ESG Reporting Important?

ESG (Environmental, Social, and Governance) reporting has grown significantly in recent years among businesses. Here are some of the primary reasons why ESG reporting is important:

Importance of ESG Reporting

- **Managing Risks**
Companies may detect and control risks related to their operations, supply chain, and investments using ESG reporting. Companies may lessen their risk of reputational harm, regulatory penalties, and legal responsibility by evaluating and disclosing their environmental and social effect.
- **Attracting Investment**
Socially conscious investors that give priority to businesses with high ESG performance might invest in a company thanks to ESG reporting. Transparent businesses that practice social responsibility and sustainability are more likely to be seen as reliable and long-lasting, which makes them more appealing as investment opportunities.
- **Meeting Regulatory Requirements**
ESG reporting is quickly becoming a legal necessity in some industries and regions. For instance, the EU has implemented the Non-Financial Reporting Directive, which mandates that major corporations publish non-financial information, such as their performance in the social and environmental spheres. Companies may ensure they comply with the rules and stay out of trouble by adopting ESG reporting.
- **Enhancing Reputation and Brand Value**
ESG reporting may help businesses build their image and reputation. Companies may gain the trust of stakeholders, such as consumers, employees, and investors, by showing a dedication to sustainability and social responsibility. Customers will be more loyal, employees will be more engaged, and brand equity will be more significant.
- **Improving Efficiency and Productivity**
Companies may uncover inefficiencies and waste using ESG reporting and create plans to increase productivity and save expenses. For instance,

businesses may save operational expenses and boost their bottom line by consuming less energy. Companies that adopt sustainable business practices can also increase employee engagement and productivity.

- **Driving Innovation**
ESG reporting may spur innovation by motivating businesses to create innovative, ecologically and socially responsible goods and services. Companies may set themselves apart from rivals and position themselves for long-term success by integrating sustainability into their business strategies.
- **Addressing Stakeholder Concerns**
Companies may address stakeholder concerns about sustainability and social responsibility using ESG reporting. Companies may show dedication to tackling environmental and social challenges and interact with stakeholders by disclosing their ESG performance.
- **Long-Term Value Creation**
By considering how a company's actions affect the environment, society, and governance structures, ESG reporting may assist businesses in building long-term value. Instead of concentrating just on short-term financial performance, companies may generate value for their stakeholders over the long term by incorporating sustainability into their decision-making.
- **Driving Positive Change**
ESG reporting encourages businesses to enhance their ESG performance and set challenging goals for development, which can bring about positive change. This might help with general social objectives, including cutting carbon emissions, encouraging diversity and inclusion, and advancing human rights.
- **Enhancing Resilience**
ESG reporting helps businesses become more resilient by preparing them for upcoming challenges and uncertainties like climate change and societal unrest. Companies may create plans that allow them to adapt to shifting conditions and maintain competitiveness over the long term by addressing ESG risks and opportunities. Companies may enhance these areas of performance and contribute to an equitable and sustainable society.

How to do ESG Reporting?

Companies can use ESG reporting to monitor and report on their ESG performance. An overview of ESG reporting is provided below:

- **Identify Relevant ESG Factors:** Finding the ESG factors that are most pertinent to your firm is the first

step in ESG reporting. This may consider things like carbon emissions, water use, human rights, labor practices, and diversity on the board. To determine the most pertinent ESG factors, contacting internal stakeholders, such as sustainability teams and senior management, is crucial.

- **Establish Metrics and Targets:**
- **Establishing** metrics and objectives for each ESG factor is the following step once you've determined the pertinent ESG factors. This entails establishing quantifiable objectives for minimizing environmental effects, boosting social performance, and strengthening governance frameworks. It's crucial to check that the KPIs and goals are attainable and linked to your business plan.
- **Collect and Analyze Data:** You must gather and analyze data on your ESG metrics to evaluate your ESG performance. Data collection from internal systems, such as waste management and energy use, and external sources, such as suppliers and consumers, may be necessary. It's crucial to make sure the data is correct, trustworthy, and consistent over time.
- **Report on ESG Performance:** Reporting on your ESG performance is the next step after data collection and analysis. Producing an annual sustainability report that includes information on your ESG performance, progress toward goals, and plans may be necessary to achieve this. The report must provide pertinent information for stakeholders and be transparent and straightforward.
- **Use ESG Reporting Standards:** Use accepted ESG reporting standards to ensure your reporting is trustworthy and comparable. These guidelines offer instructions on reporting ESG issues and ensure your reporting complies with accepted standards in the field. The Task Force on Climate-related Financial Disclosures (TCFD), Global Reporting Initiative (GRI), and the Sustainability Accounting Standards Board (SASB) are a few examples of ESG reporting standards.

Challenges Of ESG Reporting

While ESG reporting has numerous advantages for businesses, there are also some challenges. The following are some of the challenges to ESG reporting:

- **Lack of Standardization:**
The absence of standardized ESG reporting frameworks and standards is one of the biggest obstacles to ESG reporting. The GRI, SASB, and TCFD, among others, are some of the current ESG reporting standards. This can make it difficult for businesses to choose which framework or standard to apply and for investors and other stakeholders to compare the ESG performance of various companies.

- **Data Collection and Verification:**
The collection and verification of [ESG data](#) is another issue for ESG reporting. Data from various departments and business divisions and throughout the organization are frequently needed for ESG reporting. Collecting and verifying this can be difficult, especially if data collection and verification procedures are not uniform throughout the business.
- **Materiality and Scope:**
Companies must identify and report on ESG concerns that are significant to their operations under ESG reporting. Yet, deciding on the material can be arbitrary; what is essential to one organization could not be necessary to another. Also, evaluating organizations' ESG performance could be challenging due to differing reporting scopes.
- **Transparency and Disclosure:**
Companies must be honest about their ESG performance and disclose any ESG risks and opportunities as part of ESG reporting. Yet, businesses could be reluctant to share unfavorable information or be short on resources to make thorough ESG disclosures.

Discussion:

There is an increasing demand of ESG reporting from the public including the government officials such as Stock Exchange, investors, financial analysts, and other stakeholders as ESG information can provide additional information for its users to assess not only the ESG performance but also the financial performance of a company which their investment decisions are based. This literature review consolidated different arguments regarding the relation between ESG reporting and its impacts on a company's financial performance. This literature review therefore suggests that further contributions might be made by future research on first, the content and mode of ESG regulations. Second, endeavors engaging with listed companies as there is potential to improve theorizing and assessing the relationship between the EGS and financial performance of a company. Finally, longer-term analyst forecasts could be studied to assess the impact of ESG reporting and its impact on financial performance of a company.

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