Influence of ESG Disclosure on Corporate Reputation: Evidence from Emerging Markets

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Abstract: ***The objectives of the review paper were to compare stakeholders and regulations in many areas of influence, evaluate the motivations behind ESG disclosure, measure governance mechanisms, and identify different ESG impacts on firm value and reputation. This paper uses essential and comparative frameworks, and a comprehensive review of theoretical frameworks from emerging economies from 2000 to 2023 was carried out. According to the findings, the main drivers of disclosure are stakeholder pressure and regulatory compliance. Governance structures greatly improve ESG quality and company reputation. While the influence of environmental factors varies depending on industry and regulatory maturity, governance has a greater positive impact on firm value. Although implementation flaws restrict efficacy, regulatory frameworks and stakeholder engagement play a crucial role in shaping disclosure practices. Depending on organizational integration, ESG committees have a possible but unstable impact on reputation. As a result, the analysis informs policymakers and practitioners seeking to improve sustainable business practices and stakeholder trust in emerging economies by highlighting the need for longitudinal studies, context-specific governance reforms, and standardized metrics to advance ESG integration.***

Keywords: ESG Disclosure, Corporate Reputation, Emerging Market, Firm value

1. Introduction

With the increasing focus on sustainable development and responsible business practices worldwide, the study of environmental, social, or governance factors in ESG disclosure and their effect on corporate reputation in developing nations has become essential (Khamisu et al., 2024; Ahmad et al., 2023). ESG considerations have grown from being optional corporate social responsibility programs to becoming essential parts of reporting frameworks and corporate strategy since the early 2000s (Bosi et al., 2022). (Lokuwaduge et al., 2022). With more than 2, 000 businesses globally publishing sustainability reports by 2018 (Ahmad et al., 2023) (Bosi et al., 2022), this trend reflects stakeholder demands for accountability and transparency. ESG's importance in practice comes from its capacity to impact investor confidence, firm value, and long-term competitiveness, particularly in emerging economies where market dynamics and regulatory frameworks vary significantly from those of developed markets (Syarkani et al., 2024; Mazzioni et al., 2024).

The effectiveness of ESG policies suffers in emerging markets from many factors, such as a lack of enforcement, a lack of monitoring capabilities, and fragmented regulatory environments (Nandan & Sinku, 2024; Lokowaduge et al., 2022). Establishing consistent standards is made more difficult by the differences in institutional development between nations, and there are frequently insufficient longitudinal studies in the literature to fully capture the effects of regulations (Refakar & Ravaonorohanta, 2020; Mazzioni et al., 2024).

ESG scores are ways to rate a company's performance in three important areas: environmental, social, and governance. These scores show how well a company handles the risks and opportunities that arise regarding sustainability and corporate responsibility. Environmental aspects look at how well a corporation is doing at cutting down on its carbon footprint and managing natural resources. Social elements examine how business affects workers, consumers, and the larger community, including concerns of diversity, labor practices, and consumer protection. Governance elements look at how well leaders do their jobs, how open they are, how the board is made up, and how much executives are paid. The overall ESG score is a combination of these three groups (Eccles, Ioannou, & Serafeim, 2014).

2. Literature Review

Environmental, Social, and Governance (ESG) disclosures have grown because of the growing focus on corporate sustainability. Businesses may demonstrate their dedication to sustainability, ethics, and governance through these disclosures. Therefore, it can affect stakeholder trust and the company's reputation. The impact of ESG disclosure on corporate reputation is very complicated and may offer unique opportunities and challenges in emerging markets, where institutional frameworks and regulatory structures may differ from those in developed markets. This review summarizes the most recent findings on how ESG disclosures improve a company's reputation, with an emphasis on emerging market data and paying close attention to regional variances and governance considerations.

Despite much research, it is still unclear whether ESG disclosure improves corporate reputation in emerging markets (Amanullah et al., 2024; Zou, 2024). There are contradictory findings in the literature currently in circulation about how ESG affects a company's reputation and value. Other studies highlight the advantages of transparency and stakeholder engagement (Qin, 2024; Meng et al., 2023). The other way results that agree with or are unique to an industry (Tamasiga et al., 2024; Siddiqui et al., 2024). Issues such as cultural factors, regulatory diversity, and disclosure quality are also blamed for the different findings (Yang, 2024; Syarkani et al., 2024; Hussain et al., 2024). This knowledge gap is critical due to the importance of corporate reputation in influencing investor decisions, customer loyalty, and competitive advantage. However, the intricate role that ESG disclosure plays in this process has not been fully synthesized (Rounok et al., 2023). Closing this gap is essential for guiding corporate strategies and policy in emerging markets where environmental, social, and governance (ESG) structures are evolving (Khamisu et al., 2024; Desai, 2023).

Emerging Markets' ESG Disclosure

While emerging markets are currently the focus of ESG disclosure, their challenges face very different obstacles than those faced by developed markets. Yang (2024) highlights that there are major challenges due to the different standards for ESG disclosures in emerging markets. The lack of comparison between businesses, particularly across industries and geographical areas, is going to continue to be a significant obstacle, even though disclosures could reduce information asymmetry. Furthermore, according to Tamasiga et al. (2024), emerging economies frequently reply differently to ESG disclosures, with industry- and region-specific factors having a big impact on the result. For instance, Manulang and Soeratin (2024) discovered that although Indonesian companies frequently use ESG disclosures to increase transparency, the region's weak governance and inadequate enforcement of regulations reduce the impact on corporate reputation.

ESG disclosures improve firm value despite these obstacles. According to Esa et al. (2024), businesses in Malaysia that practiced strong sustainability reporting not only improved their standing with stakeholders but also achieved their trust, which in turn increased investor confidence. This suggests that businesses in emerging markets that place a value on transparency build reputations outside their domestic markets, increasing their ability to compete globally.

Impact of ESG on Corporate Reputation

ESG disclosures have found a positive effect on a company's reputation, according to research, especially when it comes to building trust with stakeholders such as consumers and investors. For example, Amanullah et al. (2024) discovered that social and environmental factors in Bangladesh were the fields where ESG disclosures had the biggest effects. According to their research, social disclosures have a greater impact on how consumers think of a brand than governance disclosures. This agrees with research by Esa et al. (2024), which found that, in the case of Malaysian companies, sustainability reporting significantly enhances corporate reputation. These results are consistent with the larger body of research that highlights stakeholder trust as an important outcome of successful ESG disclosure. This idea was further supported by Kim et al. (2024), who claimed that ESG management techniques greatly improve a company's reputation, especially when combined with governance transparency. In a more general context, Pajuelo-Moreno et al. (2024) conducted a meta-analysis of 92 studies and conducted that the relationship between corporate reputation and ESG disclosures is dependent on the methodological approaches, including the type of ESG metrics used, as well as the regulatory and geographical situations. For instance, Meng et al. (2023) discovered that in China, investor attention to ESG performance had a positive impact on corporate reputation, with a strong mediation effect seen in companies with more open governance practices. According to Siddiqui et al. (2024), positive ESG disclosures still result in improved reputation and increased investor attention, especially in areas with growing regulatory demands for transparency, even though the effects of ESG on firm value are more mixed in emerging markets than in developed ones.

Governance's Contribution to Improving Corporate Reputation

One important element that mediates the connection between ESG disclosures and company reputation is corporate governance. Ghuslan et al. (2021) argued that stakeholders' perceptions of ESG disclosures are influenced by the standard of corporate governance. A company's reputation can be improved by improving the credibility of ESG disclosures through effective governance. This is especially true in emerging markets, where an effective governance framework often indicates accessibility and moral business conduct.

ESG disclosures improved corporate reputation in Malaysia. Indayani et al. (2024) discovered that the effectiveness of these disclosures was largely dependent on governance structures, such as the existence of independent boards and efficient governance committees. These conclusions have been supported by Sharawi et al. (2024), who observed that in Saudi Arabia, the beneficial effects of ESG disclosures on investor perceptions and corporate reputation were significantly moderated by board attributes such as ownership, independence, and size. Khamisu et al. (2024) discovered that in emerging markets, businesses with improved governance frameworks, such as diverse boards and effective governance, were better equipped to use ESG disclosures to improve their standing with stakeholders.

Indayani et al. (2024) noted that governance committees, including audit and sustainability committees, had little effect on how ESG disclosures influenced a company's reputation in Indonesia. This implies that governance is essential. Therefore, the degree to which it moderates the effects of ESG disclosures may differ in emerging markets based on the quality of the institutional framework and the strength of the regulatory environment.

Challenges and Concerns in ESG Disclosure

Even though ESG disclosures positively enhance a company's reputation, several obstacles prevent them from reaching their full potential in emerging markets. According to Manulang and Soeratin (2024), greenwashing is a major concern because of the practice of exaggerating ESG initiatives to give the impression of sustainability. Greenwashing is an ongoing issue in markets such as Indonesia, where regulatory oversight is not strong. This undermines the legitimacy of ESG disclosures and reduces stakeholder trust. Not only that, but it also reduces the goal of ESG score disclosure, which is to increase trust and transparency.

However, comparability issues arise from the absence of standardization in ESG reporting frameworks. According to Pajuelo-Moreno et al. (2024), it has been challenging to consistently assess the effect of ESG disclosures on corporate reputation because of methodological variations in how ESG performance is measured across studies. Additionally, as Siddiqui et al. (2024) noted, the gap is especially problematic in emerging markets, where companies may use different ESG metrics, making it difficult for stakeholders to correctly interpret ESG disclosures.

Furthermore, the credibility of ESG disclosures is largely dependent on the level of governance. According to Qin (2024), effective governance frameworks can reduce the dangers of greenwashing by guaranteeing the accuracy and transparency of ESG disclosures. The lack of strong institutional frameworks that regulate disclosure quality can result in a decline in stakeholder trust and a less pronounced effect on corporate reputation in areas with weaker governance structures, such as Bangladesh and Indonesia (Amanullah et al., 2024). As the literature review shows above, the studies demonstrate that ESG disclosure enhances transparency, minimizes information asymmetry, and creates stakeholder trust, all of which have had a positive impact on corporate reputation and firm value in emerging markets. Studies from a variety of nations, including Saudi Arabia, Egypt, Malaysia, China, Indonesia, and others, support this relationship by illustrating how ESG practices can be used as strategic instruments to boost investor confidence and market performance. (Soeratin & Manulang, 2024; Aboud and Diab, 2018; Meng et al., 2023; Syarkani et al., 2024). More effective financial metrics such as Tobin's Q, ROA, and market capitalization were found to positively correlate with the quality of ESG disclosure.

This paper uses a literature review methodology to investigate how ESG disclosure affects corporate reputation in emerging markets. Google Scholar, JSTOR, and Scopus were among the academic databases from which pertinent reports, articles, and industry analyses published between 2014 and 2024 were carefully chosen. Studies that investigated the connection between ESG disclosure and corporate reputation in emerging economies were specifically targeted by the inclusion criteria, with a focus on reputational risks, firm valuation, and market reactions.
Finding important themes and conclusions about how ESG disclosure affects company reputation, a qualitative analysis of the chosen studies was conducted. Articles were grouped according to industry, geography, and how social media influenced how the public viewed ESG initiatives.

3. Methodology

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4. Conclusion

ESG disclosure is essential for improving a company's standing in developing nations. Although these actions are impacted by governance quality, regional differences, and industry-specific factors, the literature indicates that ESG disclosures have a significant positive impact. Businesses with effective governance frameworks and open disclosure of ESG data are more likely to earn stakeholders' trust and enhance their reputation. However, to optimize the success of ESG disclosures in these markets, issues such as greenwashing, irregular reporting procedures, and insufficient governance frameworks need to be resolved. Governance will probably play a bigger role in reducing the negative impact of ESG disclosures on reputation as emerging markets develop further.

However, due to their stage of development and internal integration, ESG committees and sustainability governance structures continue to play an understudied role in reputation outcomes. To fully benefit from ESG, emerging market companies need to improve governance structures, successfully involve stakeholders, and make an investment in long-term, all-encompassing ESG plans that are in line with changing market demands and regulatory changes.

The important way companies enhance their reputation, which improves their competitive advantages and firm value in emerging markets, is by having effective ESG performance and disclosure. To increase transparency, build trust, and attract sustainable investment, businesses must implement comprehensive, unambiguous ESG disclosures. There is missing research about ESG disclosures aimed at encouraging companies, investors, governments, and others to let them know why ESG is important and what advantages it has.

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