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From Transparency To Transformation: An Empirical Study Of The Impact Of Esg (Environmental, Social And Governance) Disclosures On Corporate Reputation And Investor Trust

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Abstract
The impact of ESG (Environmental, Social and Governance) requirements in the corporate sector has recently gained significant attention globally. The main objective of this research paper is to gain insights and study the impact of ESG information, check how corporate governance systems work, and find out how ESG affects an organisation's value and reputation. According to the recent findings, it is found that the main reasons behind the disclosure and its transparency are pressure from the stakeholders and the need to follow rules. Therefore, this paper also aims to focus on Environmental, Social, and Governance (ESG) factors, which have changed the way companies report towards transparency, especially in terms of how it affects their investors' trust and financial performance. The majority of organisations are now adding ESG measures to bring transformation into their corporate reporting systems as investors and stakeholders call for more openness. Companies that allow strong ESG strategies usually face lower costs, therefore, tend to build stronger relationships with stakeholders. With the inclusion of advanced technology, stronger internal and external monitoring systems can still do better towards improving transparency. 216 respondents were surveyed to explore the factors related to ESG affecting investors' trust and financial performance and the Impact of ESG disclosures on corporate reputation and investor trust. The study concludes that there is significant impact of ESG disclosures on corporate reputation and investor trust.

Keywords: Corporate Governance, Transparency, Advanced technology, Investors and Stakeholders, Financial Performance.

Introduction
The idea of ESG (Environmental, Social and Governance) was introduced by the United Nations in 2004, thereby becoming more important as the focus towards sustainable development is rapidly growing. ESG reporting basically means the sharing of information about an organisation's performance in all Environmental, Social and Governance areas of the company. Thus, it also includes all the non-financial details that show how an organisation handles ethics, sustainability, and management practices. Such reporting is becoming very crucial as stakeholders and investors, customers, as well as regulatory bodies of organisations, ask for more openness and transformation towards corporate social responsibility. Rise of ESG in global finance marks a major shift in how corporate value is seen, measured and shared. The success of an organisation is now not only judged by its financial results but also by how well a company cares for the environment, acts responsibly in society and follows

good governance practices. Therefore, the majority of people still question it, by stating that ESG moves away from the real purpose of corporate governance, despite not creating value either for companies or investors. Arvidsson & Dumay. (2022), mentioned the rising importance of ESG reporting initially comes from many reasons, but investors now see that companies with strong ESG practices tend to perform better financially and have lower risks. Companies' ESG performances affect their reputation, their trust among investors and also the choices of customers. "ESG (Environmental, Social and Governance) standards are now an important way to judge how a company manages transparency and sustainability." According to Quattrone. (2022), transparency of information and its disclosures means how openly an organisation shares its operational as well as management details. Such aspects are very crucial for building public trust and attracting responsible investors. During recent years, despite so many transformations, the need for companies has become more transparent and is rising steadily with the growth of sustainable development goals and in ESG investments. This shift shows a big transformation in global business where transparency is not only about obeying and following rules; instead, it acts as a bridge between companies and their stakeholders, influencing how people see them, the decisions they make, and their trust in the market. As sustainable investment has grown rapidly, ESG disclosures have become more crucial in corporate governance, with ESG assets under the management reaching over USD 3.9 trillion globally by 2021. Stakeholders and Investors now gradually see sustainability as an important factor towards creating value. Rissman & Kearney. (2019) stated that growing trends in ESG disclosures or their reporting are also driven by shareholder activism because nowadays, investors use proxy voting to enforce organisations towards greater openness and transformation in accountability. Research shows that a major advantage of ESG disclosers is that they can improve the company's image by increasing trust amongst investors and reducing gaps in information. Zumente & Bistrova. (2021), mentioned companies with strong ESG practices often tend to spend less on capital and gain higher market value, as investors and stakeholders appreciate openness and sustainability efforts. Therefore, in addition ESG reporting has often been linked to a lower cost of capital, since more investors of an organization prefer businesses which focus more on long-term growth rather than short-term profits. Furthermore, for instance, industries like renewable energy and eco-friendly technologies are attracting more global investors due to the bold climate targets of the United Nations, including its pledge to reach net-zero emissions by the year 2060.

LIterature Review

According to Alsayegh et.al. (2020), ESG disclosure means the way companies share details about their organisational work, administration and progress in environmental, social, and governance areas. As sustainability becomes more important, ESG reporting has turned into a key practice for businesses to show their commitment and results in these fields. “Companies use ESG disclosures to share openly available information about their sustainability efforts and corporate social responsibility (CSR) programs, along with their governance systems.” The ESG reporting framework covers different types of information beyond just financial numbers, such as plans for protecting the environment, actions to promote social fairness, and responsible governance practices. Agbakwuru et.al. (2024) mentioned the major objective of ESG disclosures is to provide stakeholders, like the customers, investors of a company, and regulatory as well as managerial bodies, with a clear view of a company's practices in environmental, social and governance areas, thereby highlighting both the risks and opportunities. Transparency of ESG practices acts as a crucial way to evaluate an organisation's commitment to sustainability, despite how it manages new risks. Lokuwaduge

& Heenetigala. (2017) acknowledged that ESG disclosures of an organisation connect the sustainability goals with daily business practices, unlike the normal financial reports, by offering a complete picture of how companies create long-term value. Such methods can be described as a modern way of measuring organisational performance, which looks beyond the financial numbers as well as provides wider insights to influence how stakeholders and investors consider decisions. Different groups like investors, customers of a company, employees, and regulatory bodies, as well as local communities, are considering asking for more detailed reports on the company's ESG activities. Because of such new rules and regulations, ESG disclosures are becoming more prominent and important. In the majority of the parts of the world, it is becoming more compulsory. Therefore, for instance, the European Union's Corporate Sustainability Reporting Directive (CSRD) requires large businesses to share their ESG performance details. The U.S Securities and Exchange Commission (SEC) is also working in the same way to strengthen its ESG reporting standards by encouraging the global move towards greater corporate openness and transparency. Investors of large companies and businesses, thereby, are at the forefront of such demand, as they know that sustainability risks can impact both the company's financial results and their investment returns. Many regulatory bodies across the world, despite so many challenges, have introduced compulsory ESG reporting rules, by helping recognise that such disclosures are vital towards market stability and long-term sustainable growth. Ellili. (2022), asserted that investors push for greater clarity on ESG disclosures, which is also a major reason behind their rising importance. About 90% of global investors considered ESG reporting and their transparency as one of the most crucial factors towards the evaluation of long-term risks and opportunities, according to the 2021 EY Global Institutional Investor Survey, thereby highlighting how sustainability is shaping their investment choices. Therefore, much evidence suggests that ESG-focused assets are expected to climb to $50 trillion by the year 2025, and they are becoming the central pillar of the financial industry. During this research work, it is suggested that research on ESG disclosures has also expanded gradually, with studies exploring their driving forces, impacts, and how they operate across different companies and global markets. Koh et.al. (2022) stated "expectations of customers also play a major role towards the growing need for the ESG disclosures." Customers of the market are more likely to consider and choose brands that reflect their values on sustainability and social responsibility. Along with this, policies of governmental bodies and investor activism do serve as a powerful external pressure, driving firms to be more transparent about their ESG efforts. Businesses with strong ESG practices not only gain customers' loyalty and their trust, but also secure a bigger share of the market. Nielsen study found that of 85% consumers worldwide believe that companies must play an active role towards the protection of the environment. A study by Harvard Business School showed that businesses with strong ESG practices usually face fewer financial troubles and lead to achieving better returns. Thus, companies that perform well in ESG reporting often secure a competitive edge over others in the market. According to Chairani & Siregar. (2021), ESG disclosures are also very crucial from the perspective of risk management of an organisation, as they help a company to recognise and deal with risks related issues linked to environmental, social and governance aspects. Companies that actively handle the above-mentioned risks build a better reputation and maintain stronger financial stability. For better financial results and lower funding costs in business practices, strong and ethical ESG practices must be considered. A study done by McKinsey & Company observed and concluded that well-executed ESG strategies can raise operating profits up to as much as 65%. Involvement of stakeholders also plays an encouraging role towards shaping ESG reports and to match the expectations of those who are impacted. Companies are able to collect and gather useful feedback by engaging their key stakeholders, which tends to improve the accuracy and value of their reports. This approach makes sure the disclosures are relevant, clear, and address the concerns of everyone involved. Chopra et.al. (2024) mentioned ESG disclosures offer numerous benefits to an organisation, but despite so many advantages, they also come with several challenges. One of the major challenges is the comparison of ESG performance across different organisations and businesses due to the lack of common reporting standards. Companies need to embrace modern tools and technologies to keep the reports trustworthy, which will ensure the data is accurate. Firms need strong systems for the collection, organising and checking of the information. While modern technologies can be used to increase the accuracy and reliability of the data, independent third-party audits can also add more credibility to ESG reports. Task Force on Climate-related Financial Disclosures (TCFD), Sustainability Accounting Standards Board (SASB) and Global Reporting Initiative (GRI) provide proper guidelines that assist businesses in preparing detailed and reliable reports. Companies following the well-recognised reporting frameworks help the organisation to improve the trustworthiness of ESG disclosures. At the same time, another huge difficulty is the difference in ESG priorities across different companies, which affects how disclosure standards must be applied. Companies with high environmental risks, such as the energy and manufacturing industry, focus more on environmental factors, while those service-based sectors often stress social and governance aspects. Park & Jang. (2021) described that investors and stakeholders often find difficulties in understanding such variations to properly judge and compare ESG performance across industries. Some companies may overstate or misrepresent their efforts leading to sustainability, thereby appearing responsible, without truly solving core problems. This weakens stakeholder trust and reduces the real impact of ESG in driving genuine sustainability. Still, while going through the research work, many companies face various difficulties in collecting reliable and complete data for their ESG reports. The above-mentioned challenge is greater for companies that do not yet have ESG reporting methods or lack strong data management systems. Companies are now integrating advanced digital tools and technologies to overcome such problems. For example, Companies like "Apiday provide integrated platforms that help gather, organise and report ESG data by making this systematic process easier, improving the accuracy of the information." Right now, there is no single global framework for ESG reporting, which creates inconsistencies and makes it hard to compare reports between companies. Because of such a gap, some firms may practice "greenwashing", meaning they overstate their sustainability actions to look more eco-friendly than they are. The International Financial Reporting Standards (IFRS) Foundation is making efforts to develop a worldwide ESG reporting standard to overcome such challenges. According to Salvioni et.al. (2016), Customers of the market in today's scenario prefer to buy from companies that showcase for the environment, tend to maintain good governance and follow fair labour practices. From this view, the sharing of ESG reports and their practices plays a key role in improving an organisation's profit by matching its actions with what different stakeholders expect, based on stakeholder theory. Audi & Yu. (2024) mentioned that ESG disclosures help build customer trust and brand value, which in turn support profitability. They do act as an effective tool towards improving profitability by ensuring that the company's actions meet stakeholder expectations. Businesses are able to attract investors and customers, increase satisfaction among employees by being more transparent and reduce risks, all of which support financial growth. The research consistently showed that companies that have strong ESG reporting perform better financially, proving the strategic value of focusing on stakeholder needs in today's sustainability-focused market.

Objective

1. To explore the factors related to ESG affecting investors' trust and financial performance
2. To know the Impact of ESG disclosures on corporate reputation and investor trust

Methodology

216 respondents were surveyed to explore the factors related to ESG affecting investors' trust and financial performance and the Impact of ESG disclosures on corporate reputation and investor trust. Data collection and analysis is done through "Convenient sampling method" and "Exploratory Factor Analysis" following "Multiple Regression Analysis".

Findings

In study survey male are 59.7% and rest 40.3% are female. 31.9% are below 32 years of age, 41.2% are between 32 to 42 years and rest 26.8% are above 42 years. 33.3% of them are having the work experience of less than 5 years, 37.5% are working from 5-10 years, and rest 29.2% are having the experience of more than 10 years in their respective field.

"Table 1 General Details of Respondents"

"Variables"	"Respondents"	"Percentage"
Gender		
Male	129	59.7
Female	87	40.3
Total	**216**	**100**
Age		
Below 32	69	31.9
32-42	89	41.2
Above 42	58	26.8
Total	**216**	**100**
Work Experience		
> 5 years	72	33.3
5-10 years	81	37.5
< 10 years	63	29.2
Total	**216**	**100**

"Exploratory Factor Analysis"

"Table 2 KMO and Bartlett's Test"

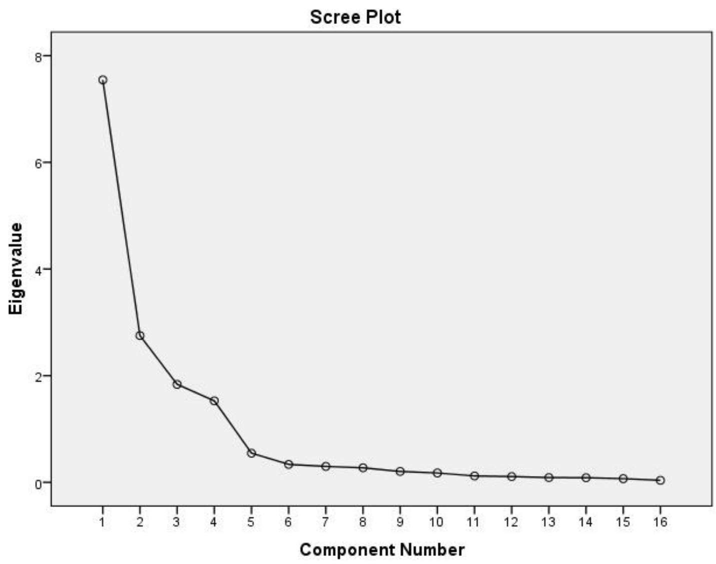
<table>
<tr><td colspan="2">"Kaiser-Meyer-Olkin Measure of Sampling Adequacy"</td><td>.835</td></tr>
<tr><td rowspan="3">"Bartlett's Test of Sphericity"</td><td>"Approx. Chi-Square"</td><td>3904.650</td></tr>
<tr><td>"df"</td><td>120</td></tr>
<tr><td>"Sig."</td><td>.000</td></tr>
</table>

KMO value is 0.835 and the "Barlett's Test of Sphericity" is significant.

“Table 3 Total Variance Explained”

“Component”	“Initial Eigen values”			“Rotation Sums of Squared Loadings”		
	“Total”	“% of Variance”	“Cumulative %”	“Total”	“% of Variance”	“Cumulative %”
1	7.546	47.165	47.165	3.504	21.901	21.901
2	2.752	17.197	64.363	3.483	21.767	43.668
3	1.837	11.481	75.844	3.377	21.108	64.776
4	1.528	9.551	85.395	3.299	20.618	85.395
5	.546	3.413	88.808			
6	.336	2.099	90.906			
7	.298	1.865	92.771			
8	.272	1.699	94.471			
9	.203	1.271	95.742			
10	.175	1.091	96.833			
11	.120	.747	97.581			
12	.107	.671	98.252			
13	.089	.554	98.806			
14	.086	.535	99.341			
15	.069	.429	99.770			
16	.037	.230	100.000			

In a “principal component analysis”, 16 variables were grouped into 4 factors with 21.901%, 21.767%, 21.108 and 20.618% variance respectively and total variance is 85.395%.



“Table 4 Rotated Component Matrix”

“S. No.”	“Statements”	“Factor Loading”	“Factor Reliability”
	Sustainable Practices		.950

1	Transparency of ESG practices evaluate an organisation's commitment to sustainability	.896	
2	Offers a complete picture of how companies create long-term value	.881	
3	Stakeholders and Investors see sustainability as an important factor towards creating value	.875	
4	Share openly available information about their sustainability efforts and CSR programs	.862	
	Trust		.950
5	Transparency of information increase investor’s trust	.917	
6	Organisation shares its operational and management details to enhance trust	.877	
7	ESG disclosers improve trust amongst investors and reducing gaps in information	.863	
8	Strong and ethical ESG practices must be considered	.841	
	Risk Management		.935
9	Companies handle risks to build a better reputation and maintain stronger financial stability	.879	
10	ESG disclosures are also very crucial from the perspective of risk management of an organisation	.859	
11	Help a company to recognise and deal with risks related issues linked to ESG	.857	
12	Embrace modern tools and technologies to keep the reports trustworthy and ensure that the data is accurate	.846	
	Long-Term Financial Performance		.925
13	More investors of an organization prefer businesses which focus more on long-term growth	.907	
14	Operate across different companies and global markets	.903	
15	Secure a bigger share of the market	.889	
16	Companies that secure a competitive edge over others in the market	.788	

Factor “Sustainable Practices” includes the variables like Transparency of ESG practices evaluate an organisation's commitment to sustainability, offers a complete picture of how companies create long-term value, Stakeholders and Investors see sustainability as an important factor towards creating value, and share openly available information about their sustainability efforts and CSR programs. Factor “Trust” consist of variables like Transparency of information increase investor’s trust, Organisation shares its operational and management details to enhance trust, ESG disclosers improve trust amongst investors and reducing gaps in information, and Strong and ethical ESG practices must be considered. Factor “Risk Management” includes the variables like Companies handle risks to build a better reputation and maintain stronger financial stability, ESG disclosures are also very crucial from the perspective of risk management of an organisation, help a company to recognise and deal with risks related issues linked to ESG, and embrace modern tools and technologies to keep the reports trustworthy and ensure that the data is accurate. Factor “Long-Term Financial Performance” includes the variables like more investors of an organization prefer businesses which focus more on long-term growth, operate across different companies and global markets, Secure a bigger share of the market, and Companies that secure a competitive edge over others in the market.

“Table 5 Reliability Statistics”

“Cronbach's Alpha”	“N of Items”
.923	16

The overall reliability is 0.923 for the 4 constructs comprising sixteen items.

“Table 6 Model Summary”

“Model”	“R”	“R Square”	“Adjusted R Square”	“Std. Error of the Estimate”
1	.783[a]	.613	.606	.64887
Predictors: (Constant), Sustainable Practices, Trust, Risk Management, and Long-Term Financial Performance				

The adjusted R-squared value is 0.606 with approximately 61% of the variation.

“Table 7 ANOVA”

“Model”		“Sum of Squares”	“df”	“Mean Square”	“F”	“Sig.”
1	“Regression”	140.866	4	35.217	83.643	.000[b]
	Residual	88.838	211	.421		
	Total	229.704	215			
a. Dependent Variable: Impact of ESG disclosures on corporate reputation and investor trust						
b. Predictors: (Constant), Sustainable Practices, Trust, Risk Management, and Long-Term Financial Performance						

Value under significant column indicates a significant relationship between ESG disclosures (Sustainable Practices, Trust, Risk Management, and Long-Term Financial Performance) and corporate trust and reputation.

“Table 8 Coefficients”

“Model”	“Un standardized Coefficients”		“Standardized Coefficients”	“t”	“Sig.”
	“B”	“Std. Error”	“Beta”		
(Constant)	4.037	.044		91.439	.000
Sustainable Practices	.096	.044	.093	2.172	.031
Trust	.092	.044	.089	2.089	.038
Risk Management	.256	.044	.248	5.793	.000
Long-Term Financial Performance	.756	.044	.731	17.086	.000
DV: Impact of ESG disclosures on corporate reputation and investor trust					

All the factors Sustainable Practices, Trust, Risk Management, and Long-Term Financial Performance are showing significant Impact of ESG disclosures on corporate reputation and investor trust. Highest impact is shown by Long-Term Financial Performance showing beta value .731 followed by Risk Management (.248), Sustainable Practices (.093) and Trust with beta value 0.089.

Conclusion

ESG disclosure is one of the most important parts of today's corporate governance, as it provides clear information about a company's sustainability efforts and overall performance. Recognition of its value, tackling the challenges outnumbered, and applying proper practices can bring as well as improve openness and responsibility, while also helping build a more sustainable future. Ilori et.al. (2023) concluded, "Environmental, social and corporate sustainability are gaining more and more attention than ever, which makes having clear and trustworthy standards to measure environmental, social, and governance (ESG) factors essential for businesses as well as investors." By realising the significance of ESG disclosures, overcoming related hurdles, and following effective methods by integrating advanced tools and technologies, organisations will be able to improve openness and responsibility, which in turn support a more sustainable future. Being transparent and aligning business actions with stakeholder needs, ESG reporting plays a key role towards building trust, reducing risks, boosting financial outcomes, and preserving the company's credibility. The above study underlines the crucial role of transparency and sustainable practices by showing real evidence that companies with stronger ESG reporting gain much higher profits by improving financial performance.

The study aims to explore the factors related to ESG affecting investors' trust and financial performance and the Impact of ESG disclosures on corporate reputation and investor trust. It is found that Sustainable Practices, Trust, Risk Management, and Long-Term Financial Performance affects investors' trust and financial performance. The study concludes that there is significant impact of ESG disclosures on corporate reputation and investor trust.

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