ADFJ ISSN 2522 - 3186.

African Development Finance Journal

VOLUME 7 (IV)

Environmental, Social and Governance Disclosure: Impacts and Prospects

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Date Received: January, 24, 2024
Date Published: July, 04,2024

Environmental, Social and Governance Disclosure: Impacts and Prospects

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Abstract
The study is a review of Environmental, Social and Governance (ESG) disclosure practices and its impact on businesses as well as its future prospect. ESG disclosure is the practice of making information about a company's sustainability performance available to the public. It was also observed that ESG disclosure has some benefits which includes increased transparency and accountability, increased access to capital, and increased reputation for firms. Despite the benefits some challenges exist such as determining the information about ESG that is material, the cost of collecting and disclosing ESG information, green washing, and lack of established framework. The prospects of ESG disclosure include greater reliance on digital technology, broadening the ESG criteria, increase in uniformity of disclosure framework and a holistic approach to net zero. The study concludes that ESG disclosure is an emerging area in accounting which is gaining much attention from investors, regulators and other stakeholder groups.

Keywords: *ESG, Green washing, sustainability performance, digital technology*

Introduction

Over the past decades, there has been a significant change in the way financial decisions and business practices are made around the world, as greater emphasis is now placed on Environmental, Social, and Governance (ESG) considerations. This transition is because stakeholders becoming more aware of the connections between the operations of companies and their impact on the environment, society, and governance practices. (Friede, et al., 2015). ESG factors include a wide range of non-financial metrics that assess a company's performance as well as their impacts on employee welfare, social responsibility, diversity, climate change, and ethical practices (Wayne, 2019). The concept of ESG has become an important phenomenon in determining the long-term growth and survival of a company as it goes beyond the traditional financial measures. ESG disclosure is paramount to financial analysis as it takes into consideration environmental concerns and other ethical issues in considering investment decisions. Stakeholders are advocating for more information on social and environmental impacts as well as governance structures that are put in place in organizations.

Perez et al. (2022) assert that companies have increased information provided on ESG for a number of reasons. First, investors want more details on the ESG performance of the businesses they commit their resources into. Second, firms are increasingly being required by regulators to provide ESG data. Third,

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businesses now realize that ESG disclosure may enhance their brand and attract new customers and workers. Investors and other stakeholders have come to realize that financial returns should not be the only criterion for evaluating the performance and viability of firms, as a result of increasing concerns regarding the impact of corporate activities on the environment and society. Consequently, there has been a notable shift in the perspectives of regulators and investors towards incorporating ESG factors into investment decisions and disclosure standards. These growing concerns for ESG disclosures have made companies to become more transparent and accountable to various stakeholders. The Sustainability Accounting Standards Board (SASB) and the Global Reporting Initiative (GRI), have provided vital indices that has helped to improve the reliability and comparability of ESG information by firms across various industries irrespective of their location.

Despite the growing importance of ESG disclosure, existing studies in this area is divergent. This is as a result of the fact that while some studies (Deng & Cheng, 2019; Fatemi, et al., 2017; Liang, et al., 2022) emphasized the potential benefits associated with improved ESG reporting in promoting sustainable corporate practices and attracting socially and environmentally responsible investments, others (Aouadi & Marsat, 2018; Perez, 2022) have questioned the relevance and importance of such disclosures in generating favorable business outcomes. The reporting on business practices and financial performance becomes more difficult as a result of the absence of uniform reporting frameworks and measures (Schipper, 2022). Similarly, the concept of double materiality also poses a challenge in ESG disclosure. This is because business entities are faced with the problem of identifying issues that are relevant to ESG disclosure and financially material to the activities of the organization as well as socially and environmentally important to interested stakeholder group.

The concept of double materiality addresses how a company's financial statement should include both information on the financial impact of the business and the effects of these activities on the society and environment as a whole. This can pose a number of challenges to companies which includes the cost of collecting and disclosing the ESG information, identifying which ESG information is material in terms of risks and opportunities, as well as lack of established frameworks for reporting information on ESG (Cruz & Matos, 2023).

Nevertheless, there is a growing importance of ESG disclosures from different stakeholders, this is because ESG disclosure practices have significant implications for an organization's survival in the long run and sustainability of the society. ESG disclosures are important to the accounting profession as accountants are involved in measuring, reporting, and providing assurance on the quality of ESG information provided by organizations. Accountants ensure that ESG information provided are reliable, comparable and useful to various stakeholders in making informed decisions. The objective of this study is to carry out a review of existing literature to examine the implications and prospects of ESG disclosure for the business organizations and other stakeholder group. In achieving these objectives, the paper offers insight relating to the potential of ESG disclosure in influencing moral and ethical business conduct, and its implications for the future of corporate reporting and investment decisions.

The remaining part of the paper is structured as follows: following section one which is the introduction, is section two which is an overview of ESG disclosure, section three focuses on impacts of ESG disclosure, section four provides prospect of ESG disclosure, and section five is the summary and conclusion.

An Overview of ESG Disclosure

ESG disclosure involves the disclosure of a company's environmental, social, and governance performance with stakeholders (Perez, 2022). This area is evolving and it's fast becoming an essential component of corporate reporting. This section examines the development of ESG reporting practices, the reasons why companies disclose on ESG data, and the role of different stakeholders on the ESG reporting environment. In addition, the study focuses on how ESG disclosure impacts business practices, financial performance, and stakeholder involvement. It also highlights the difficulties and opportunities related to standardisation, comparability, and future advances in ESG reporting. This will be beneficial in broadening existing knowledge on ESG disclosure and the implications on decision-making, as well as offer suggestions for possible future research.

Evolution and Development of ESG Disclosures

ESG disclosures have evolved overtime as a result of changes in the society, increase in knowledge of sustainability issues, and the increasing significance of responsible investment (Deng & Cheng, 2019). The term has been influenced by various concepts before it evolved into ESG. The origin of ESG can be traced to socially responsible investment (SRI) which first gained popularity in the 1960s and 1970s when

businesses began to include social and ethical considerations into making investment decisions (Townsend, 2020). SRI involves making investing decisions with due consideration to the social impact as well as the financial return of the organisation. According to Townsend (2020), the SRI principles evolved from religious practices, which advocates for peace and restraint from engaging in harmful business practices. The strategy used in this case was to include or exclude an investment based on classifying it as either positive or negative.

Business organisations initially focused on negative screening for SRI which meant that companies excluded investments from their portfolio they believed to be detrimental to the society. In the 1980s the concept of Corporate Social Responsibility (CSR) started to gain prominence as businesses recognised the value of being transparent and accountable about how their actions affects the environment and the society (CXO Magazine Team, 2023). The concept of ESG was first used in early 2000s and it describes a framework for evaluating non-financial performance indicators that reports beyond the traditional financial measures. According to Rajan (2022), the United Nations Environment Programme Initiative was the first group to coin the phrase in Freshfields Report in 2005. At its initial stage, ESG assessment was characterised by a lack of uniformity in standards and as such there was little consistency in how ESG elements were measured and evaluated. However, as stakeholders and investors are demanding for more information on organisations ESG performance, there is a greater need for standardisation and transparency in ESG reporting.

Investors in recent times are concerned about the financial stability, social responsibility and sustainability of firms which they consider as vital elements in considering investment decision (CX0 Magazine Team, 2023). This increasing demands by stakeholders to prioritise social responsibility and sustainability has led to the rise and use of ESG performance rating and indices. Due to the demand for companies to disclose more on ESG related information, organisations like the Sustainability Accounting Standard Board (SASB) and the Global Reporting Initiative (GRI), have developed standards for ESG disclosure to address the lack of consistency and comparability in reporting. Also, the Task Force on Climate-related Financial Disclosure (TCFD) has played a significant role to address climate-related disclosures. Business organisations that are seen as industry leaders in sustainability and social responsibility would attract more investors and be better positioned to face the challenges in this modern-day business era. Thus, ESG metrics and reporting is becoming more important for sustainable investment practice.

ESG Metrics and Reporting

The environmental, social and governance performance of a firm is measured by a set of indicators called ESG metrics. These metrics are used by various stakeholders in evaluating the non-financial elements of an organisation's performance in terms of its sustainable and ethical considerations. Keeley et al. (2022) opine that ESG metrics is a set of statistics which are utilised in assessing the social dimensions of sustainability as well as the equitable distribution of various energy and environmental challenges. These measures which can be quantitative or qualitative, are used in evaluating a business sustainability, ethical conducts and the impact of the business on the society at large. According to Kotsantonis and Serafeim (2019) the main objective of ESG metrics is to accurately reflect a company's performance on ESG issues. However, investors would not be able to demand accountability on ESG performance until these metrics effectively capture a business impact on ESG issues. Fiaschi et al. (2020) opine that in addition to measuring a company's adoption of corporate social responsibilities, which refers to all social and environmental activities of a company, ESG data is also being used to assess a company's involvement in unethical business practices. The data provided by ESG have proven to be useful as managers and investors are relying more on these ratings to decide on strategies for investment decisions. The ESG metrics have key indicators, which companies use in tracking its performance, each component of ESG captures a set of metrics that companies use to track their performance.

According to Fiaschi, et al. (2020) the key issues for consideration for environment include pollution, carbon emission, resource efficiency, climate change and biodiversity. The environmental dimension emphasizes a company's environmental impact and its attempt to reduce its environmental footprint (which is the effect of the company's activity on the environment). Other indicators for environmental dimension include energy and water usage, sustainable product design and waste production. The social aspect of ESG consideration include development of human capital, human rights, labour standards, health and safety, diversity policy and community relations. The social metrics examine the firm's relationship with the society and its stakeholders; it addresses other areas such as customer satisfaction, and employee wellbeing. Under the governance dimension, the key issues for consideration are corporate governance, rule of law, transparency and institutional strength. The governance dimension in ESG relates to the organisation's leadership management, leadership style and decision-making procedures (Rajan, 2022). Other issues for consideration include executive pay, corporate transparency, shareholders right, risk management and ethical business practices.

According to the World Bank Group (2020), the metrics are grouped into four pillars which are the principles of governance, planet, people and prosperity, which are all embodied in the ESG and Sustainable Development Goals (SDGs) domain. These themes when combined together produces an overall ESG score which measures a firm's performance on ESG factors. According to Cassin (2022), the four pillars on which the ESG disclosure and reporting are framed are referred to as the four P's. These pillars are aligned with the essential element of the sustainable development goals. The pillar of principle of governance involves coordinating and directing both financial and societal performance, as well as ensuring the organisation achieves its long-term value. This pillar aligns the pillar of planet, people and prosperity to ensure that the opportunities and risks related to these dimensions are properly balanced. The pillar of planet entails a desire to prevent environmental damage so that the needs of present and future generations can be preserved. This concept encompasses resource management that is ethical and sustainable, both in terms of production and consumption, and urgent actions on climate change (Cassin, 2022). The people component of ESG metrics involves an ambition to eradicate poverty in all its form and ensure that everyone can achieve their potential in conditions of equality, dignity and healthy environment. The last dimension which is on prosperity, is a desire that all humans live prosperous and satisfying lives, and that technological advancement is compatible with the natural world.

The core and expanded sets of metrics has been proposed although they are related. The core metrics is a set of twenty-two established reporting requirements that are generally quantitative measurements (World Bank Group, 2020). The core metrics are minimum requirements companies are obligated to disclose in reporting ESG impact. These measures are considered essential in evaluating a firm's sustainability performance. They are in numerals that often can be directly measured and compared across firms over a period of time. These metrics enable stakeholders to easily evaluate the ESG performance of companies by facilitating comparison across industries and sectors. The World Bank Group (2020) asserts that the expanded metrics are less standardised procedures but have a wider value chain scope and have more apparent financial impacts. These metrics provide more information about a company's ESG performance and it's more applicable to a peculiar industry. Firms are urged to provide information about them, especially when they are relevant and appropriate.

ESG metrics have significant impact in addressing the internal and external needs of stakeholders as it provides transparent and accountable reporting. According to Krueger et al. (2021), the mandatory

disclosure of ESG information has a positive effect on firm's disclosure practices and valuations, as it leads to increase in the quality of corporate disclosure as well as corporate value. They assert that firms which adhere to ESG regulations are more likely to implement standards for reporting that would improve the comparability and reliability of financial statements, which is essential for sustainable investment strategies. According to Fiaschi et al. (2020), ESG metrics aids in addressing the issue of information asymmetry and offers a consistent way to evaluate the social performance of organisations. From the foregoing, it can be deduced that ESG reporting promotes sustainable investment strategies, sustainable finance, addresses social issues, improve disclosure procedures, shows a firm's commitment to sustainability, attract new investors, increase comparability and credibility, and contributes to the overall value of the firm.

Despite the benefits of ESG metrics, which include enhanced financial performance, improved risk management, and greater informed decision-making, Keeley et al. (2022) have stated that the theorisation and comparability gaps among the metrics has led to divergence in ESG ratings, as such there is the need to put in place measures to standardise and harmonise ESG reporting. Madden (2022) emphasises that the viewpoint of relying on ESG metrics may oversimplify the difficulties of accomplishing a net zero transition successfully. The latter is because ESG metrics may only focus on a narrow range of environmental issues. Also, it may not take into consideration the entire lifecycle of a product, for example, a company may have a low carbon footprint but its overall impact may be unfavourable if the material it utilises in its production process have a significantly high negative impact on the environment. Kotsantonis and Serafeim (2019) also averred that ESG data can be subjective therefore, challenging to quantify uniformly across firms and industries. The lack of uniform definition and reporting methodologies for ESG variables results in inaccurate information which can be misleading to stakeholders and investors. This lack of uniformity could also undermine the comparability and credibility of ESG metrics. Also, Fiaschi et al. (2020) state that ESG scores may only indicate the year in which a misconduct is discovered or sanctioned through payment of fines or legal actions and not necessarily when they actually occurred.

Another issue is the possibility of greenwashing. Companies may engage in superficial and false ESG reporting to create a positive image without making any significant improvement to their practices (Kotsantonis & Serafeim, 2019). There is the possibility that ESG reporting may not accurately reflect the company's true sustainability performance in the absence of reliable and verifiable assurance mechanism. This can lead to loss of stakeholder's confidence in the information provided by ESG reports. Furthermore,

the emphasis on ESG metrics and reporting takes time and resources and this may divert attention from important sustainability issues. As such merely reporting and measuring ESG data does not lead to significant steps or positive impact on social and environmental issues. Fiaschi et al. (2020), proposed the M-quantile approach to evaluate and overcome the shortcomings of ESG indices. This approach compares a company's ESG performance in relations to other firms within its industry in order to quantify ESG performance. This makes it possible to benchmark companies with their peers and identify areas where improvements should be made in terms of the ESG performance. Also, this approach can be used to assess the distribution of ESG metrics across firms, industries or time periods. The index represents information between 0 and 1 indicating the lower and upper limits of wrong business conduct. As a result, firms close to an index of 1 are relative to other firms more wrongful in their business conduct at any given point in time.

From the literature review, evidences suggest that adopting sustainable practices and engaging in ESG reporting can result in improved organisational processes, performance and governance practices, despite the arguments against ESG metrics and reporting. However, the potential for greenwashing should be addressed to ensure credibility and effectiveness of ESG metrics and reporting in promoting sustainable business practices.

Impacts of ESG Disclosure

ESG disclosure entails providing information about an organization's procedures, techniques, and decision making with regards to environmental responsibility, ethical, social and governance issues. The impact of these disclosure is the effect of reporting on environmental, social, and governance practices on various aspects of a company's operations and its relationship with stakeholders. It relates to the results and the effect of disclosing information about an organizations performance and ESG related practices.

Fatemi et al. (2017), conducted a study on ESG performance and firm value: The moderating role of disclosure. From the study, it was discovered that firm value increase by ESG strengths while the value of the firm decreases by weaker scores. In addition, it was found that ESG disclosure plays an important role in enhancing the influence of the strengths between ESG performance and firm value. Murata and Hamori (2021) examined the relationship between stock price crash risk and ESG disclosure. The study which focused on three geographical areas: Japan, the United States, and Europe relied on the bad news hoarding

theory. This theory asserts that the information asymmetry between investors and managers causes stock price crashes. Companies that are socially responsible are more inclined to share information and refrain from hoarding bad information, which reduces the risk of stock price crashes. The study found that greater disclosure will reduce the likelihood of future stock market crashes. However, the impact and the forecasting power of ESG disclosure varied by geographical location. Ellili (2022) carried out a study on impact of ESG disclosure and financial reporting quality on investment efficiency. The study discovered that FRQ minimizes information asymmetry, promotes business transparency, improves ESG disclosure and increases investment performance. The research revealed that FRQ and ESG disclosure have a positive impact on investment efficiency. A limitation of this study is that it considered only traded companies in UAE.

Alsayegh, et al. (2020), carried out a study to investigate the impact of ESG information disclosures on Asian companies economic, environmental, and social sustainability performance. According to the study, implementing environmental and social policies within an effective corporate governance system enhances the sustainability performance of a company. Also, the study found a significant positive relationship between a firm's economic value and its ability to benefit the society. This demonstrates the relationship between social performance, environmental performance, and economic sustainable performance. That is, the economic, environmental and social aspects all contribute to affect the total performance of a firm. A weakness in any of the factor have the potential to impact the other variables. Future studies can consider the link between different corporate governance mechanism and sustainability, this can include considering changes that may occur in different economic cycle, which are periods of economic growth or recession. This consideration is important as businesses may lose focus of certain aspects of social responsibility during economic downturns and perform better when the economy is relatively stable.

Krueger et al. (2021) carried out a study on the impacts of mandatory disclosure around the world, measuring outcomes such as accuracy of ESG reporting, dispersion of analyst earnings forecast, the accessibility and quality of ESG reporting, likelihood of adverse ESG incidences, and risk of decline in stock price. From the study, ESG reporting is more accessible and of higher quality when it is required, especially for businesses with poor ESG performance. Mandatory reporting is of immerse benefit to the organization's information environment as analyst projection for earnings become more precise. The study also found that negative ESG occurrences become more unlikely, the risk of stock price crash reduces as a

result of implementing mandatory ESG disclosure. As such, mandatory ESG disclosures have a positive information effect and also beneficial to the capital market.

Carnini, et al. (2022) carried out a study on ESG disclosure and its influence on firm performance. The study examined how ESG disclosure affected the performance of a firm taking into the consideration the fact that stakeholders are paying more attention to the firm's ESG practices. The study used the largest listed Italian companies as its sample over a ten-year period. From the study, it was discovered that there is a positive correlation between firm performance and ESG disclosure. This implies that firms that disclose on ESG tend to perform better than others who do not. This positive correlation should encourage managers to invest in corporate social responsibility initiatives. However, the results for each pillar reveals that the governance pillar has no impact on performance of the firm, the social and environmental pillars have a positive effect on the firm's performance. Worthy of note is that two separate variables; ROA and EBIT, were employed to address business performance and reflect the effects of ESG disclosure on two operating dimensions. The first dimension has to do with capital invested and relates to the statement of financial position while the second was associated with operating results that is achieved by the business and thus linked to the income statement. The environmental score however had a negative impact on ROA. This can be attributed to the fact that firms invest money in reducing emission, thus the capital invested in the business operation becomes higher and therefore returns from the capital decreases.

Plastun et al. (2020) conducted a study on SDGs and ESG disclosure regulation, on top world 50 world economies. The study addressed if ESG disclosure regulation differs between emerging and developed nations and if these regulations affect an economy's SDGs index (SDGI) ranking among the 50 world economies. From the findings, it is evident that there is a statistically significant difference in ESG disclosure between the developed and developing nations. There is a greater level of compliance with ESG disclosure requirements in developed nations and this ultimately affects the ranking and the SDGI of the 50 top economies of the world. The study found that a country's ranking improves as it complies with requirements of ESG disclosure, as such implementing ESG standards could be an essential step in a nation's economic development.

From the studies reviewed ESG disclosure have various impacts on investor decision making, stock price crashing, long term value creation of firms, the image of a firm, and mitigating risk. ESG disclosure has a

profound impact on how businesses are perceived, their mode of operation and how they interact with the various stakeholder group. The importance of ESG disclosure will continue to increase as stakeholders demand more ESG information from companies.

Emerging Trends and Future Directions of ESG Disclosure

ESG disclosure has witnessed significant development and has become more useful as climate change, social justice and governance issues are witnessed around the world. Businesses that comply with trends in ESG tend to achieve increase in customer loyalty, brand reputation, reduction in risk while contributing to the development of a sustainable future. Also, investors are seeking for investments that are socially responsible in addition to generating financial returns. The growing importance of ESG has fundamentally changed the way companies and investor's view sustainability, as such it is considered a vital component in business and investment decisions. According to Inrate (2023), the future ESG trends could affect business and investing as it contributes to the long-term success of a firm, as such attention has to be given to these trends. These ESG trends are addressed but not limited to the following.

Broadening of the ESG Criteria

ESG reporting and disclosure is becoming more complex as investors and other stakeholders require more comprehensive information and reporting on ESG issues. As a result, ESG criteria is being expanded to take into account concerns related to the environment, society and governance such as diversity and inclusion, human rights and supply chain management. According to Deng and Cheng (2019) a number of factors have led to the increase in ESG criteria, which includes more understanding of the social and environmental risks, placing emphasis more on ESG factors, greater corporate accountability, and promotion of impact investing. Impact investing is an investment strategy that seeks to achieve positive environmental and social effects in addition to financial gains.

More knowledge of the social and environmental risk means that there is a growing awareness of the dangers that social inequalities, climate change and violation of human rights pose to the society and the environment. According to Inrate (2023), in order to proffer solutions to these issues, there is a greater need for accountability and transparency as such a broadening of the ESG criteria. Also, in a bid to manage risk and ensure sustainability over time, investors are taking ESG considerations into account while making choices regarding investment decisions. This has resulted in an increase in sharing of data on ESG related

information. Another factor that has contributed to broadening the ESG criteria is that organisations are under increased pressure to be open about their performance and accept responsibility for their social and environmental impacts (Fiaschi, et al., 2020). In addition, the need for international regulations and frameworks is increasing as evidenced by issuance of standards by the International Sustainability Standard Board. The United Nations Guiding Principles on Business and Human Rights Paris Agreement on climate change. These frameworks provide a basis for greater accountability and transparency by addressing these ESG issues.

ESG Consideration in investment decisions

ESG concern has become an important factor taken into consideration by investors in making investment decisions, as they believe that businesses that are more focused on ESG considerations have greater prospects for future growth and sustainability. Majority of investors seek to align their investment decisions with their values and social and environmental goals, which have given rise to impact investing. Impact investing is an investment strategy that aims to produce both financial returns and social and environmental impacts that are beneficial to the different stakeholder group (Agrawal & Hockerts, 2019). As the awareness of impact investing, environmental and social issues become more relevant, investors seek to use their resources to effect positive change. This trend in ESG is expected to continue and a number of factors have led to ESG consideration in investment decision making. These include increasing interest in sustainable and ethical investment alternatives, an increase in awareness of global, social, governance and environmental issues, and increase in the number of impact investment alternatives (Wayne, 2019).

Greater reliance on digital technological innovations

According to Inrate (2023), technological and data analysis advancement have made it easier to collect, analyse, and communicate ESG information. This has led to a more interactive and real-time disclosure. Organisations can now present their data in a more engaging and user-friendly formats, such as using videos, dashboards, infographics and stories with the help of technological advancement. Also, the use of technology provides a more precise and reliable data in ESG disclosure. Gupta (2023) asserts that the next generation requirement for reporting will be as a result of technological advances, which would help to shape the future of ESG disclosure.

Without adequate technology businesses would find it difficult to collect, analyse and report information of ESG data because of its complex and largely disperse nature. However, as technology advance, the emergence of artificial intelligence, big data analytics and machine intelligence become more prevalent. This will ultimately lead to the automation of data collection processes for firms, which would promote a more reliable and precise ESG disclosure. These technological solutions will enable firms to make better choices and improve ESG performance by sorting through enormous amounts of data, identifying pertinent metrics, and providing real-time insights (Gupta, 2023). As technological advances continue, the future of ESG reporting provides the prospect of a more sustainable economy.

Increasing uniform disclosure frameworks

The demand for standardisation of disclosures on ESG is growing in order to ensure comparability and consistency of ESG performance across businesses and industries. Investors and other stakeholders may find it difficult to compare companies ESG performance as a result of lack of standardisation in ESG disclosure. In a bid to address these issues, the first two IFRS sustainability Disclosure Standards were released by the International Sustainability Standard Board (ISSB) in June, 2023 (Tellery Group, 2023). The first disclosure is IFRS S1 which is the General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 which is on Climate-related Disclosures. According to Tellery Group (2023), these standards were prepared by the ISSB after COP 26 in Glasgow in 2021. This was done after extensive consultation of global financial leaders and groups such as Climate Disclosure Standard Board (CDSB), Taskforce for Climate-Related Disclosure (TCFD), Global Reporting Initiatives (GRI) and other stakeholders. The goal of IFRS S1 is to mandate an organisation to provide information regarding its sustainability related opportunities and risks that is helpful to users of the financial reports in order to aid decision making about allocating their resources to the organization. The IFRS S2 mandates companies to disclose information about its climate-related risks and opportunities that will be helpful to users of the financial statement in making decisions regarding resource provision to the entity. As part of the future prospect of ESG disclosure, it is anticipated that there would be more regulatory changes, industry convergence within specific framework and consolidation between some existing frameworks.

Holistic Approach to Net zero

According to Ruparathna et al. (2022), net zero is the equilibrium between the production and removal of greenhouse gasses from the atmosphere, in effect resulting in no net increase in these gases. This can be

achieved through a combination of emission removal and emission reduction. As organisations and governments engage in achieving net zero emissions, it is important that a comprehensive strategy is needed to address the complicated challenge of decarbonization (Inrate, 2023). A number of steps can be taken to achieve this, which includes energy transition, decarbonizing supply chain, and promoting circular economy principles. For net-zero emission to be achieved, energy transition must be made from fossil fuel to renewable energy system. This change is essential in combating climate change and ensuring a sustainable future (Norton, 2022).

ESG investing is becoming more popular as investors are seeking to investing in businesses that are dedicated to sustainability and energy transition as they are seen as more ethical (Agrawal & Hockerts, 2019). According to Norton (2022), some financial institutions have declared their support for ESG principles by setting aside a significant amount of ring-fenced finance for investment in energy transition. Another way to achieve net-zero is through decarbonising supply chain. This entails reducing emissions from activities throughout the entire supply chain. This may involve working with suppliers to raise sustainability standards, reduce emissions and taking into consideration the environmental impacts of various activities in the supply chain (Inrate, 2023). Also, the circular economy is gaining increasing popularity as a substitute for the linear economy. Circular economy is an economic system that attempts to reduce pollution and waste while circulating goods and materials at the best possible value (Murray et al., 2017). One key element of a circular economy strategy is to lessen the negative impacts on the environment through waste reduction and recycling of materials. Also, it involves putting policies in place to promote and redesign products and processes that will lead to lowering greenhouse gas emission and increasing efficient utilisation of resources (Inrate, 2023). In effect, the circular economy can contribute to the achievement of net-zero. Net-zero as a future prospect in ESG reporting has gained significant popularity as it continues to influence the ESG agenda and reporting practices across the globe.

Conclusions and Recommendations

ESG disclosure is an emerging area in accounting that is gaining attention from investors, regulators and other stakeholder groups. The practice of organizations disclosing information on ESG performance is referred to as ESG disclosure. In this paper, ESG disclosure within the framework of accounting was examined paying specific attention to its impact and potential prospects. Stakeholders are becoming interested in demanding accountability and transparency from firms beyond the financial metrics as

business continues to evolve globally. ESG disclosure evolved into an essential tool used by businesses to communicate the firm's commitment to sustainability, ethics and creating value over time.

The study highlights the impacts of ESG disclosure from different perspectives. It was observed from literature that ESG disclosure has a positive relationship with the firm's performance. Also, ESG disclosure improves transparency and accountability, reduces information asymmetry and facilitate decision-making process for investors. ESG disclosure also assists in risk management and control by providing investors with information regarding the risks related to ESG that a company is exposed to. It also helps to promote stakeholders' engagement and address issues of concerns of socially responsible investors and other stakeholder group. This invariably enhances the corporate image of the firms, improves its access to funds and promotes trust and stronger relationship between the organization and its stakeholders.

The paper also examines the emerging trends and prospects of ESG disclosure. The increasing regulatory pressure on organizations to disclose ESG information, the emergence of modern technology, and the growing awareness of risk and opportunities related to ESG, are all contributing to the growth and prospects of ESG disclosure. The need to reduce climate risk, promoting corporate governance as well as safeguarding human rights are some of the motivating factors that is contributing to increased standardization and regulations. Also, the increased pressure from stakeholders, emergence of new technology, increase in uniform reporting and attainment of net-zero by 2050 are all factors that have impacted on global ESG agendas and reporting practices. ESG disclosure within the context of accounting will improve the accuracy of financial reports by giving stakeholders a thorough understanding of the overall performance of a business entity.

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