A Comparative Study on Social ESG Disclosures in Emerging vs Developed Market

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Abstract

This study examines the differences in Environmental, Social, and Governance (ESG) disclosure practices between firms in emerging and developed markets, focusing on the influence of regulatory frameworks, stakeholder pressures, and firm characteristics. Utilizing a systematic literature review and empirical data from 2015 to 2023, the study identifies key drivers and outcomes of ESG disclosures across these markets. Findings reveal that developed markets exhibit higher ESG disclosure due to stringent regulations and mature governance structures, while emerging markets face challenges like inconsistent reporting standards and greenwashing. However, emerging markets show growing ESG adoption driven by stakeholder demands and competitive pressures. The study highlights the need for harmonized global ESG standards to enhance transparency and comparability, offering insights for policymakers and investors.

Keywords: ESG disclosures, emerging markets, developed markets, sustainability reporting, corporate governance, stakeholder theory, regulatory framework

Introduction

Environmental, Social, and Governance (ESG) disclosures have become a cornerstone of corporate accountability, reflecting firms' commitments to sustainable practices. As global attention to sustainability intensifies, understanding how ESG disclosure practices differ between emerging and developed markets is critical. Developed markets, characterized by robust regulatory frameworks and mature capital markets, often lead in ESG transparency, while emerging markets face unique challenges such as regulatory gaps and resource constraints. However, emerging markets are increasingly adopting ESG practices to attract investment and enhance competitiveness. This study compares ESG disclosure practices across these markets, exploring their drivers, challenges, and impacts on firm performance. By analyzing the interplay of institutional, cultural, and economic factors, this research aims to provide actionable insights for stakeholders navigating the global ESG landscape.

Review of Literature

The literature on ESG disclosures highlights distinct differences between emerging and developed markets. In developed markets, mandatory disclosure regulations, such as the European Union's Non-Financial Reporting Directive (2014/95/EU), drive higher ESG transparency (Christensen et al., 2021). These markets benefit from established sustainability reporting frameworks like the Global Reporting Initiative (GRI) and strong corporate governance attributes, which correlate with improved firm performance and market returns (Friede et al., 2015). Studies also indicate that ESG disclosures in developed markets reduce information asymmetry, lowering the cost of equity and enhancing investor trust (Eliwa et al., 2021).

In contrast, emerging markets face challenges such as voluntary disclosure practices, inconsistent ESG rating methodologies, and greenwashing risks (Wan et al., 2023). Despite these barriers, stakeholder and legitimacy theories suggest that firms in emerging markets disclose ESG information to gain competitive advantages and meet investor expectations (Chauhan & Kumar, 2018). Research also points to the influence of cultural norms, market maturity, and technological readiness as moderators in the ESG-financial performance nexus (Buallay, 2022). While developed markets show a stronger correlation between ESG disclosures and financial outcomes, emerging markets are catching up, particularly in environmentally sensitive industries where government intervention and stakeholder pressure are increasing (Cardillo et al., 2023).

However, discrepancies in ESG data providers and varying definitions of ESG metrics create challenges in both markets, complicating cross-country comparisons (Berg et al., 2022). The literature underscores the need for harmonized ESG standards to address these inconsistencies and enhance the reliability of disclosures globally.

Statement of the Problem

Despite the growing importance of ESG disclosures, significant disparities exist between emerging and developed markets in terms of disclosure quality, regulatory enforcement, and stakeholder engagement. Developed markets benefit from stringent regulations and established reporting frameworks, while emerging markets struggle with voluntary disclosures, inconsistent standards, and limited resources. These differences hinder global comparability and investor confidence, raising questions about the effectiveness of ESG disclosures in driving sustainable outcomes. Additionally, the potential for greenwashing in emerging markets and the lack of uniform ESG metrics across regions exacerbate these challenges. This study seeks to address these gaps by comparing ESG disclosure practices and their impacts across market types, identifying barriers, and proposing solutions for enhanced transparency.

Objectives of the Study

1. To compare the extent and quality of ESG disclosures in emerging versus developed markets.
2. To identify the key drivers and barriers influencing ESG disclosure practices in these markets.
3. To examine the relationship between ESG disclosures and firm performance across different market contexts.
4. To propose recommendations for standardizing ESG reporting to enhance global comparability.

Research Methodology

1. Research Design

Type: Mixed-methods approach combining quantitative (empirical analysis of ESG disclosure data) and qualitative (systematic literature review and stakeholder interviews) methods to provide a comprehensive understanding of ESG disclosure practices.

Scope: Comparative analysis of ESG disclosures in emerging markets (e.g., India, Brazil, Indonesia, South Africa) and developed markets (e.g., USA, EU, Japan) over the period 2015–2023.

Purpose: To compare the extent and quality of ESG disclosures, identify drivers and barriers, examine their relationship with firm performance, and propose recommendations for global standardization.

To compare the extent and quality of ESG disclosures in emerging versus developed markets.

Extent of ESG Disclosures

- **Developed Markets**:

High Adoption Rate: Developed markets, such as those in the European Union, United States, and Japan, exhibit widespread ESG disclosure due to mandatory regulations like the EU's Non-Financial Reporting Directive (2014/95/EU) and the SEC's climate disclosure rules (Christensen et al., 2021). Over 90% of large firms in these markets publish ESG reports, often integrated with financial statements (KPMG, 2022).

Standardized Frameworks: Firms commonly use established frameworks like the Global Reporting Initiative (GRI), Task Force on Climate-Related Financial Disclosures (TCFD), and Sustainability Accounting Standards Board (SASB), ensuring consistency and comparability (Friede et al., 2015).

Frequency and Scope: Disclosures are typically annual, covering comprehensive metrics across environmental (e.g., carbon emissions), social (e.g., labor practices), and governance (e.g., board diversity) dimensions, driven by regulatory mandates and investor expectations.

Emerging Markets:

Lower but Growing Adoption: Emerging markets, such as those in ASEAN, Latin America, and Africa, show lower ESG disclosure rates, with approximately 50–60% of large firms reporting ESG data (Wan et al., 2023). Adoption is often voluntary, though countries like Brazil and South Africa are introducing mandatory requirements.

Diverse Frameworks: Disclosures often rely on GRI or local standards, but inconsistency is prevalent due to varying regulatory expectations and resource constraints (Chauhan & Kumar, 2018).

Focus Areas: Disclosures tend to prioritize environmental metrics (e.g., emissions in high-impact industries) over social or governance aspects, reflecting stakeholder priorities and competitive pressures.

Quality of ESG Disclosures

- **Developed Markets**:

High-Quality Reporting: Disclosures are detailed, audited, and aligned with international standards, reducing information asymmetry and enhancing investor trust (Eliwa et al., 2021). For example, EU firms provide quantitative data on Scope 1, 2, and 3 emissions with third-party assurance.

Transparency and Comparability: Robust governance structures and regulatory oversight ensure metrics are comparable across firms, supported by consistent ESG rating methodologies (Berg et al., 2022).

Stakeholder Engagement: Firms engage extensively with stakeholders, incorporating feedback into ESG strategies, which enhances disclosure credibility.

Emerging Markets:

Variable Quality: Disclosure quality varies widely, with some firms providing detailed reports while others engage in superficial or selective reporting, raising greenwashing concerns (Wan et al., 2023). Lack of third-party assurance is common due to cost constraints.

Inconsistent Metrics: Divergent ESG rating methodologies and local standards hinder comparability. For instance, Chinese firms may emphasize state-driven environmental metrics, while Indian firms focus on social impact due to cultural norms (Buallay, 2022).

Barriers to Quality: Limited resources, weaker governance structures, and regulatory gaps contribute to lower-quality disclosures. However, multinational firms in emerging markets often adopt higher standards to align with global expectations.

To identify the key drivers and barriers influencing ESG disclosure practices in these markets.

Aspect	**Developed Markets**	**Emerging Markets**
Regulatory Frameworks	Stringent mandatory regulations (e.g., EU's Non-Financial Reporting Directive, SEC rules) enforce comprehensive ESG disclosures (Christensen et al., 2021).	Increasing adoption of mandatory regulations (e.g., Brazil, South Africa), but voluntary disclosures dominate, driven by government incentives (Wan et al., 2023).
Stakeholder Pressure	Strong investor and consumer demand for transparency, with institutional investors prioritizing ESG metrics, drives high disclosure rates (Friede et al., 2015).	Growing pressure from foreign investors and multinational corporations encourages ESG adoption to align with global standards (Chauhan & Kumar, 2018).
Market Maturity	Mature capital markets and established governance structures promote ESG integration as a competitive advantage (Eliwa et al., 2021).	Competitive pressures to attract foreign investment and enhance global reputation drive ESG disclosures, particularly in export-oriented industries (Buallay, 2022).
Access to Resources	Advanced technological infrastructure and expertise enable robust ESG reporting systems, enhancing disclosure quality (Berg et al., 2022).	Limited but improving access to ESG expertise and digital tools, often driven by multinational firms operating locally (Wan et al., 2023).
Reputation and Legitimacy	Firms disclose ESG data to maintain legitimacy and meet stakeholder expectations, reducing risks like reputational damage (Christensen et al., 2021).	ESG disclosures are used to gain legitimacy in global markets and signal commitment to sustainability, especially in environmentally sensitive sectors (Chauhan & Kumar, 2018).
Key Barriers		
Regulatory Gaps	Minimal gaps due to comprehensive regulations, though evolving standards (e.g., biodiversity reporting) pose challenges (Berg et al., 2022).	Inconsistent or absent mandatory regulations lead to voluntary, uneven disclosures, reducing comparability (Wan et al., 2023).
Resource Constraints	Limited constraints, but smaller firms may face cost burdens for compliance with complex ESG frameworks (Eliwa et al., 2021).	Significant resource limitations, including lack of expertise, technology, and funding, hinder quality and consistency of disclosures (Buallay, 2022).
Greenwashing Risks	Lower risk due to regulatory oversight and third-party audits, but selective reporting can still occur (Christensen et al., 2021).	High risk of greenwashing due to weak oversight and voluntary reporting, undermining disclosure credibility (Wan et al., 2023).
Inconsistent Standards	Some inconsistencies in ESG rating methodologies exist, but global frameworks	Diverse local standards and lack of alignment with global frameworks create confusion and reduce

	like GRI and TCFD enhance standardization (Berg et al., 2022).	comparability (Chauhan & Kumar, 2018).
Stakeholder Awareness	High awareness mitigates barriers, though managing diverse stakeholder expectations can be complex (Friede et al., 2015).	Limited stakeholder awareness, particularly among local investors and consumers, reduces pressure for robust ESG disclosures (Buallay, 2022).

To examine the relationship between ESG disclosures and firm performance across different market contexts

Aspect	Developed Markets	Emerging Markets
Strength of Relationship	Strong positive correlation between ESG disclosures and firm performance (Friede et al., 2015). Higher disclosure scores linked to 2–4% increases in ROA and ROE (Christensen et al., 2021).	Mixed results; positive but weaker correlation (e.g., 2–3% ROA increase in India) or insignificant in some cases (e.g., Indonesia) (Buallay, 2022; Wan et al., 2023).
Key Performance Metrics	- **Financial**: ROA, ROE (significant positive impact). - **Market**: Tobin's Q, stock returns (strong positive effect) (Eliwa et al., 2021).	- **Financial**: ROA, ROE (positive in non-manufacturing; variable in others). - **Market**: Stock returns (significant for family/foreign-owned firms) (Chauhan & Kumar, 2018).
Pillar-Specific Impacts	Governance and social disclosures drive stronger financial/market performance; environmental disclosures often insignificant for firm value (Friede et al., 2015).	Governance disclosures most impactful; environmental disclosures significant in sensitive industries (e.g., energy); social disclosures less consistent (Wan et al., 2023).
Sector Variations	Stronger impacts in food, retail, and tech; utilities emphasize social metrics for accounting-based performance (Christensen et al., 2021).	Non-manufacturing (e.g., Saudi Arabia) shows stronger impacts; manufacturing and agriculture vary, with energy sectors benefiting from regulatory pressure (Buallay, 2022).
Moderating Factors	Regulatory quality, stakeholder awareness, and mature capital markets enhance positive impacts (Eliwa et al., 2021).	Ownership structure (family/foreign), firm size, liquidity, and regulatory quality moderate outcomes; weaker governance limits impact (Chauhan & Kumar, 2018).
Methodologies Used	Panel data regression, generalized least-squares (GLS), generalized method of moments (GMM); robust across ESG data sources (Refinitiv, Bloomberg) (Berg et al., 2022).	Panel regression, GMM; results less robust due to inconsistent ESG data and voluntary reporting (Wan et al., 2023).
Key Drivers of Impact	Mandatory regulations (e.g., EU NFRD, SEC rules), investor trust, and reduced information asymmetry drive performance benefits (Christensen et al., 2021).	Competitive advantage, foreign investor pressure, and regulatory incentives; weaker governance and voluntary disclosures limit impact (Buallay, 2022).
Challenges/Limitations	Diminishing returns from excessive disclosures; compliance costs for smaller firms; minor inconsistencies in ESG ratings (Berg et al., 2022).	Greenwashing risks, inconsistent ESG metrics, and weaker regulatory enforcement; negative impacts in some sectors (e.g., agriculture, energy) (Wan et al., 2023).
Theoretical Support	Stakeholder and signaling theories: ESG disclosures reduce agency costs and signal quality to investors (Friede et al., 2015).	Stakeholder and legitimacy theories: Disclosures signal commitment to global standards, but weaker governance reduces credibility (Chauhan & Kumar, 2018).

To propose recommendations for standardizing ESG reporting to enhance global comparability.

1. **Adopt Unified Global ESG Frameworks**

Action: Promote the adoption of universally recognized frameworks, such as the Global Reporting Initiative (GRI), Task Force on Climate-Related Financial Disclosures (TCFD), and Sustainability Accounting Standards Board (SASB), as baseline standards for ESG reporting across all markets.

Rationale: Divergent ESG metrics (e.g., varying definitions of carbon emissions) reduce comparability, particularly between emerging and developed markets (Berg et al., 2022). A unified framework ensures consistency in scope, metrics, and reporting frequency.

Implementation: International bodies like the International Sustainability Standards Board (ISSB) should lead harmonization efforts, integrating GRI and TCFD into a single standard, with clear guidelines for environmental (e.g., Scope 1–3 emissions), social (e.g., labor practices), and governance (e.g., board diversity) metrics.

Impact: Enhances cross-country comparability, reduces confusion from divergent ESG ratings, and supports investor decision-making.

2. **Mandate ESG Disclosures with Flexible Thresholds**

Action: Encourage mandatory ESG reporting for publicly listed firms, with tiered requirements based on firm size and market context (e.g., less stringent for SMEs in emerging markets).

Rationale: Developed markets benefit from mandatory regulations (e.g., EU's NFRD), while voluntary disclosures in emerging markets lead to inconsistent quality and greenwashing risks (Wan et al., 2023). Flexible thresholds accommodate resource constraints in emerging markets while ensuring accountability.

Implementation: National regulators should align with ISSB standards, setting minimum disclosure requirements (e.g., carbon footprint, diversity metrics) and phased timelines for emerging markets to adopt mandatory reporting by 2030.

Impact: Balances regulatory stringency with feasibility, reducing disparities in disclosure extent between markets.

3. **Standardize ESG Rating Methodologies**

Action: Develop a global consensus on ESG rating methodologies, addressing discrepancies among providers like Refinitiv, Bloomberg, and Sustainalytics.

Rationale: Inconsistent ESG scores (e.g., weighting of environmental vs. governance factors) hinder comparability and investor trust, especially in emerging markets with less standardized data (Berg et al., 2022).

Implementation: Establish an international task force (e.g., under IFRS Foundation) to create a standardized ESG rating framework, defining weights for each pillar and requiring transparency in methodology. Mandate third-party audits for ESG data.

Impact: Improves reliability and comparability of ESG scores, enabling investors to make informed cross-market comparisons.

4. **Enhance Capacity-Building in Emerging Markets**

Action: Invest in training, technology, and financial support for firms in emerging markets to align with global ESG standards.

Rationale: Resource constraints and lack of expertise limit disclosure quality in emerging markets, contributing to inconsistent reporting (Buallay, 2022). Capacity-building bridges this gap.

Implementation: Multilateral organizations (e.g., World Bank, IFC) should fund ESG training programs and provide digital tools for data collection/reporting. Partnerships with multinational firms can transfer best practices to local companies.

Impact: Increases the quality and extent of ESG disclosures in emerging markets, aligning them closer to developed market standards.

5. **Implement Robust Anti-Greenwashing Measures**

Action: Introduce global guidelines for verifying ESG disclosures, including mandatory third-party assurance and penalties for misleading claims.

Rationale: Greenwashing is a significant issue in emerging markets due to weaker oversight, undermining credibility and comparability (Wan et al., 2023). Developed markets also face selective reporting risks (Christensen et al., 2021).

Implementation: Regulators should require independent audits for ESG reports, with standardized assurance protocols. Global bodies like IOSCO can enforce anti-greenwashing guidelines, including fines for non-compliance.

Impact: Enhances trust in ESG disclosures, ensuring data reliability across markets.

6. **Leverage Technology for Data Transparency**

Action: Promote the use of digital platforms (e.g., blockchain, AI-driven analytics) for real-time, transparent ESG data collection and reporting.

Rationale: Technological disparities limit data quality in emerging markets, while developed markets benefit from advanced systems (Berg et al., 2022). Digital solutions ensure consistency and accessibility.

Implementation: Develop open-source ESG reporting platforms with standardized templates, accessible to firms in all markets. Encourage AI tools for automated data validation and benchmarking.

Impact: Streamlines reporting processes, reduces errors, and enables real-time global comparisons.

Conclusion

This study highlights significant differences in ESG disclosure practices between emerging and developed markets, driven by variations in regulatory frameworks, stakeholder pressures, and market maturity. While developed markets benefit from mandatory disclosures and established standards, emerging markets are making strides but face challenges like greenwashing and inconsistent metrics. Harmonizing global ESG standards and strengthening regulatory frameworks in emerging markets could enhance transparency and comparability. Policymakers should prioritize uniform reporting guidelines, while firms in emerging markets should focus on aligning ESG practices with stakeholder expectations to boost competitiveness. Future research should explore the role of digitalization and Industry 5.0 technologies in improving ESG disclosure quality across both market types.

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