Revisiting External Stakeholders' Role in Environmental, Social and Governance (ESG) Disclosure: A Systematic Literature Review and Research Agenda

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Abstract
An increasing number of countries have implemented mandatory environmental, social and governance (ESG) disclosure to encourage listed companies in apprising their stakeholders on the 'non-financial' aspects of relevant operational risks, resilience, and outcomes. Recent studies however revealed that mandatory disclosure in most cases does not increase the quality of filed reports, thus may hamper ESG investment decisions and the global corporate community's ongoing effort in addressing sustainability challenges. To date, researchers have largely focused on investigating the effect of company characteristics (firm level) on ESG disclosures. This literature review contributes to the scarce evidence concerning the growing influence of external stakeholders including international buyers, rating agencies, foreign investors, media, non-governmental organisations, and regulatory bodies in demanding ESG credentials of companies. The initial findings offer insights to policy makers and industry practitioners on leveraging the stakeholders by channelling their distinctive sources of contextual pressure to influence ESG disclosure decisions by companies.

Keywords: ESG, Sustainability Reporting, Scopus, Google Scholar, Literature Review

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Introduction

Over the past few years, an increasing number of countries have introduced sustainability reporting instruments that require or encourage organizations to provide disclosure about their current efforts and future commitments on social, environmental and governance (ESG) performance (Bartels et al., 2016). ESG is an acronym developed in a 2004 report jointly prepared by 20 financial institutions that were invited by United Nations Secretary-General Kofi Annan to provide guidelines/recommendations on the integration of environmental, social, and corporate governance issues in asset management and securities brokerage services (Compact, 2004). Professor Virginia Harper Ho (2021) proposed that the term "ESG" should serve as interpretive guidance and to be defined broadly to include "all nonfinancial information that is or may become material to the reporting company or its investors."

Investment mandates have propelled the ESG reporting trend as more global assets managers and investment firms are incorporating ESG considerations in their ethical/impact investment processes and proxy voting decision-making (Eccles & Klimenko, 2019; Boffo & Patalano, 2020; Gerber et al., 2021). However, the ESG disclosure among businesses remains weak, despite the Government's ongoing effort to encourage industries in providing relevant disclosure about their ESG commitments and indicators (Bakar et al., 2019; Kasbun et al., 2017; Mohammad & Wasiuzzaman, 2021). As countries are debating for a stronger legislation such as mandating ESG reporting standards (Krueger et al., 2021), policy makers should explore novel approach beyond policy intervention to improve ESG disclosures quality. To date, researchers have largely focused on investigating the effect of company characteristics (firm level) on ESG disclosures. The perceived growing influence of stakeholders can play a proactive role in investigating and exposing controversial corporate practices, either in response to complaints or on their own initiative. Dansky and Gamm (2004) have defined external stakeholders as "those special-interest groups that are concerned with the organization's operations relative to their own interests." Notwithstanding the growing interest in ESG, there remains limited systematic review of the literature concerning the influence of external stakeholders in ESG disclosure. The objective of this review study is to systematize the empirical literature related to the role of stakeholders in ESG disclosure.

Conclusions

Systematic literature review (SLR) refers to a form of review method that involves critical appraisal of empirical evidence from all relevant studies with the aim to answer a clearly defined question or hypothesis (Liberati et al., 2009; Synder, 2019). This study adopts the SLR approach as propagated by Tranfield (2003) that involves three stages namely selecting database systems (Google Scholar and Scopus) and search term, screening, and retrieving of article texts for careful and iterative reading. The protocol allows the researchers to identify and retrieve an initial 72 sample of articles.

Whilst by no means exhaustive, the initial findings of this literature review reveal the growing list of external stakeholders including international buyers, rating agencies, foreign investors, media, non-governmental organisations, and regulatory bodies in demanding ESG credentials of companies. The prospect of this review study is promising and warrants further investigation to better understand the influence of various stakeholder groups in driving corporate motivations to disclose ESG information across different countries with unique regulatory mandate settings. In summary, the initial findings highlighted the pivotal involvement of external stakeholders to channel their distinctive sources of contextual pressure to influence ESG disclosure decisions by companies.

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