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Debatable Nature of Environmental, Social, and Governance Information: Focusing on Mandatory Disclosures

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Abstract

Although national and international institutional progress has been made based on the disclosure of environmental, social, and governance (ESG) challenges faced by companies, a better understanding of the concept and nature of ESG information is required for both the companies that prepare the information and stakeholders who use the information because ESG information differs from financial information in terms of its nature and concepts. Moreover, ESG issues are associated with externalities derived from companies' activities. Therefore, for company managers those issues may not be relevant. Although institutional ESG disclosure systems have developed rapidly, the fundamental issue of accountability tends to be ignored among market stakeholders. This study reviews the concept and nature of ESG, explores empirical cases and recent developments in institutional ESG disclosure systems at national and international levels, and identifies challenges associated with ESG disclosures in light of accountability, which is the most critical factor for achieving substantive ESG disclosures towards sustainability. When adopting institutional ESG information disclosure frameworks and standards, companies must carefully consider how such disclosures can achieve accountability.

Keywords: *accountability, institutional disclosure, ESG (environmental, social, and governance), SDGs, international standards*

1. INTRODUCTION

Investors have become increasingly interested in how companies manage environmental, social, and governance (ESG) issues. They have focused on ESG information disclosures in markets because these issues can pose risks or opportunities for their investments. Institutional frameworks and standards for disclosing ESG information considered useful guidelines for investors' decision-making, have been developed at the national and international levels; however, less attention has been paid to how ESG disclosures can facilitate accountability. Compared with traditional financial information disclosures, ESG information addresses broader information across companies and supply chains. Various ESG issues require both quantified and qualified disclosures, which stakeholders and companies carefully consider. Therefore, a better understanding of the concept and nature of ESG will facilitate accountability and support sustainability. Several scholars have discussed the relationship between ESG information disclosure practices and ESG accountability (see Beattie and Jones, 1992; Cho et al., 2012; Hopwood, 2009; Merkl-Davies et al., 2011; Moneva et al., 2006; Tedeschi and Riess, 1981). Companies' ESG accountability is derived from the idea that ESG goals should align with corporate responsibilities related to their operations because companies use resources that initially belonged to stakeholders. This implies externality issues recognised by leading institutional investors, such as those investing in listed companies, employees, and other stakeholders (Brewster, 2022). However, the argument regarding their relationship has been ignored with the current development of market-driven disclosure systems; thus, the debatable nature of ESG information disclosed by companies must be better understood.

The concept of materiality, or ESG issues that a company prioritises in its reporting, is debatable. For instance, some stakeholders may emphasise a company's environmental and social impacts in the context of corporate accountability and responsibility based on the effects of company operations. Conversely, other stakeholders, such as investors seeking to mitigate investment risks in their portfolios, may focus on corporate management information regarding the risks and opportunities associated with environmental and social issues faced by companies. Furthermore, stakeholders tend to be interested in how management handles issues within an international political context, such as the transformation of specific problems, including climate change, biodiversity, and human capital. The concern is that if institutional ESG disclosure systems continue to develop without fully understanding of the concept and nature of ESG information, then such systems may not necessarily contribute to ESG accountability.

Therefore, this study examined the concept and nature of ESG information, explored empirical cases, introduced current progress in institutional ESG disclosure systems across regions, and identified challenges associated with achieving ESG accountability towards sustainability. This study promotes a better understanding of the concept and nature of ESG information, provides critical views on the effectiveness of ESG disclosure systems, and facilitates corporate ESG accountability and transparency in capital markets.

The remainder of this paper is organised as follows. Section II explores the concept, typical themes, and nature of ESG and its information. Section III introduces the development of market-oriented institutional ESG disclosure systems across various nations and regions. Section IV discusses ESG accountability challenges, summarises the study conclusions, and proposes future research directions and practices.

2. CONCEPT AND NATURE OF ESG

2.1. Concept of ESG

ESG is a business concept that encompasses three components, namely environmental, social, and governance, which can be used individually or collectively. ESG is commonly used in financial and investment communities, where stakeholders assess how a company identifies and manages the risks arising from ESG issues.

ESG is a concept that is occasionally used interchangeably with 'sustainability'. However, sustainability was not developed as a business concept and is inherently incompatible within a business context because most business activities prioritise economic efficiency over externalities, such as environmental and social impacts. This intuitive sense of discomfort and the paradoxical relationship between ESG and sustainability can confuse managers. Therefore, differentiating the concepts of ESG and sustainability in an organisation can be challenging. Several listed Japanese companies have mentioned their ESG initiatives in their regulatory corporate reports to address this issue (FSA, 2023). Moreover, some of these companies have indicated the need to discuss their sustainability policies in board meetings and regulatory reports, suggesting that their managers recognise that ESG issues can become governance issues (FSA, 2023).

Sustainable Development Goals (SDGs) are international development goals listed in the 2030 Agenda for Sustainable Development by the United Nations (MOFA, n.d.). These goals apply to the period from 2016 to 2030 and thus could potentially influence how ESG and sustainability are approached. While ESG focuses on the practices and conduct of organisations, sustainability typically refers to the policies and approaches organisations use to address these practices. For instance, in its 'Sustainability Data Book' for 2023, Toyota Motor Corporation explained its sustainability approach and policies for ESG initiatives by providing practical cases and numerical data.

Global political trends have driven corporate management to focus on ESG and sustainability. However, the term sustainability is rooted in ecological science rather than business (Holden et al., 2014) and derived from the word 'sustain,' which means 'to cause or allow something to continue for a period of time' or 'to keep something in operation or to maintain' (Cambridge Dictionary, n.d.). This term was initially used in forestry in 1840s Germany (Moshood et al., 2022) and later introduced in the United States (US) by Pinchot et al. (1910). Sustainability has been applied to agriculture and represents a changing paradigm (Moshood et al., 2022). Moreover, sustainability is a vital part of the global community's agenda because it references the concept of sustainable development that seeks to address the problem of economic development that causes environmental destruction.

The concept of sustainable development, which is often used interchangeably with sustainability, was introduced as a global community goal in the 1987 'Our Common Future' (also known as the Brundtland Report) published by the United Nations World Commission on Environment and Development (WCED) (1987). This organisation discusses and devises strategies for protecting the environment and enhancing sustainable development. In the Brundtland Report, which was compiled and published by the Norwegian Prime Minister and chairperson of the commission G. H. Brundtland, sustainable development is defined as 'development that satisfies the needs of present generations while meeting the needs of future generations' (WCED, 1987). This definition stresses the necessity of ethically considering intergenerational and interregional equities in promoting economic development, which can cause conflicts between generations or regions based on environmental destruction and human rights issues.

While the Brundtland Report stressed the need for ecological sustainability by arguing that 'sustainable development requires the conservation of the planet and animal species' (WCED, 1987), the report highlighted the importance of social changes by arguing that 'the case for the conservation of nature should not rest only with the development goals. It is part of our moral obligation to other living beings and future generations' (WCED, 1987). Therefore, sustainable development focuses not only on traditional ecological and economic aspects but also on critical global political factors in a rapidly deteriorating global environmental context, thus necessitating significant changes in institutional operations (Manulak, 2022).

The concept of sustainability is commonly understood to include economic, environmental, and social aspects, which are known as the triple bottom line (TBL) (Elkington, 1998).

The WCED defines sustainability as a business approach that considers TBL issues in a balanced, holistic, and long-term manner, thereby benefiting current and future generations of stakeholders (de Lange et al., 2012; WCED, 1987). When focusing on the environmental aspect, sustainability can be defined as the conditions necessary for ecosystems to sustain themselves over the long term (Holden et al., 2014). Conversely, when focusing on social aspects, sustainability can be defined as 'the long-term viability of a community, a set of social institutions, or societal practices' (Britannica, n.d.). Sustainability represents a new method of thinking that offers an alternative to the conventional approach of engaging in short-term, short-sighted, and wasteful activities. For example, promoting energy- and resource-efficient lifestyles or vehicles with low greenhouse gas emissions can be part of seeking sustainability in policy implementation.

2.2. Typical ESG themes

A better understanding of ESG themes can lead to accountability through better stakeholder communication. Business professionals have often attempted to identify ESG themes by focusing on the current global business society. The Association of Certified Fraud Examiners (ACFE), the world's largest fraud-prevention organisation, provides best-in-class training, offers CFE certifications, and fosters a dynamic global community of fraud-prevention professionals (ACFE, n.d.). Grant Thornton is a multinational professional firm that provides assurance, tax, and advisory services to its clients in 135 countries (Grant Thornton, n.d.). These business organisations jointly introduce typical ESG themes and information in a publication titled 'Managing Fraud Risks in an Evolving ESG Environment' (ACFE and Grant Thornton, 2022). The environmental themes included sustainability, pollution, ecological impacts, biodiversity, habitat preservation and enhancement, natural resource management, water efficiency, waste management, packaging, air quality, energy management, climate change, and greenhouse gas (GHG) emissions. Environmental information refers to matters related to an organisation's goals, targets, and initiatives towards achieving sustainability and protecting the natural environment. These include targets and initiatives to reduce GHG emissions, protect biodiversity, and conserve energy and resources.

Social themes include working conditions, labour standards, employee benefits, employee relations, health and safety, human capital management, human rights, gender equality, diversity, equity, inclusion, and belonging (also known as DEI&B), customer privacy, data security, access and affordability, product quality and safety, materials and sourcing, supply chain transparency, socioeconomic progress, and community investment. In addition, social information can refer to social efforts that support an organisation's value of people and its concern for diversity, equity, working environments, and social justice.

The last aspect of ESG is associated with governance, including regulatory compliance, business ethics, corporate behaviour, board and executive oversight, board independence, executive compensation, shareholder rights, legal and regulatory environment management, internal controls, anti-corruption, competitive behaviour, critical incident risk management, systemic risk management, responsible marketing, customer and product responsibility, data privacy, and business model resilience. Governance information refers to matters related to an organisation's governance and ethics, such as management actions, transparency, and executive remuneration.

While ESG themes associated with climate change tend to be argued in a context separate from the business scale, the risks and opportunities arising from ESG issues should be identified in specific business contexts because business impacts on the environment and stakeholders can differ based on business models. Moreover, the manner of stakeholder engagement can vary depending on the supply and value chains; therefore, considering accountability and boilerplate disclosures without specific context, timeliness, and accurate performance information will not inspire meaningful outcomes.

2.3. Nature of ESG

Understanding ESG involves two aspects. First, as perceptions and societal concerns evolve, the scope of ESG issues expands, necessitating more comprehensive research. Some problems can extend to an organisation's internal and external environments. For example, a theme related to product quality across the supply chain may require both internal and external organisational responses. As this scope expands and broadens, the number of types of ESG content to be handled and the complexity may increase. For example, environmental concerns regarding energy and natural resource management may increase if access to these resources is limited. When dealing with customer-related social issues, stricter data protection may be necessary in case of customer data leakage. Moreover, improved working environments and conditions may be necessary to address work-life balance issues through social networking services. Regarding governance issues, corporate scandals caused by poor corporate governance can introduce new governance schemes and methodologies that only adhere to the Western governance styles with which Japanese companies must comply. Whenever various ESG events occur, relevant ESG initiatives must be addressed, structured, and monitored. Moreover, some ESG issues may evolve, while others may occur abruptly, suddenly, or destructively. For instance, FUJIFILM Holdings Corporation's sustainability report (2023) indicated that the company has prioritised addressing the problem of marine plastic pollution and set a target to promote resource recycling, which includes recycling waste plastics and using recycled plastics in product containers and packaging. Thus, plastic pollution can significantly change a company's operates and involves strategic and capital-intensive efforts.

Second, the interrelations among ESG components can create complexities in company management that necessitate establishing appropriate corporate governance and internal control systems to ensure accountability. For example, preventing environmental pollution is connected to respecting human rights when people are affected by company-induced pollution. At the same time, product quality and safety are related to environmental concerns and customer safety.

These complexities require a strategic perspective across companies and their supply chains within certain resource limitations. A cross-organisational ESG internal control system may also be necessary because traditional vertical and individual specialised business units do not in work in tandem.

Some listed Japanese companies include sustainability committees within their governance, as noted in their annual regulatory reports ('Yukashoken Hokokusyo'), and some of their chief executive officers are listed as the committees' chairpersons. For instance, Mitsubishi Materials Corporation, which aims to be a leader in the recycling of nonferrous metal resources, has a sustainability committee as an advisory body for the board of directors to promote sustainable management (Mitsubishi Materials Corporation, 2023). Some large publicly traded companies have systems in place in which the performance of ESG-related indicators affects the assessment of the variable portion of the director's compensation. For example, Asahi Group Holdings, a leading company in Japan that includes a beverage manufacturer as a subsidiary, has a global sustainability committee that incorporates social value indicators (sustainability indicators) into executive compensation (Asahi Group Holdings, 2024).

In this discussion, we emphasise that ESG encompasses environmental and social issues that can be more complex than isolated governance issues. These issues involve various stakeholders and affect different aspects of business. Companies must address the externalities resulting from their business activities because of the interconnected nature of ESG issues. However, addressing externalities can be challenging because identifying and disclosing externalities requires companies to be aware of and able to manage such externalities to send positive signals to stakeholders, which is expected management behaviour. To avoid dealing with complex and potentially debatable ESG issues, companies will intentionally focus on ESG techniques related to business practices and describe how they conduct business sustainably rather than addressing the broader considerations of their business impacts on society and the environment. This limited understanding of sustainability, or pathological managerial misunderstanding, can affect the disclosure of ESG information. To inhibit such practices, the promotion of SDGs by industrial organisations has increasingly encouraged Japanese companies to address ESG initiatives towards sustainability. The Keidanren, a representative economic organisation in Japan, is currently promoting 'Society 5.0 for SDGs' to achieve SDGs (Keidanren, n.d.). Following this policy by the Keidanren, the main listed companies in Japan were more likely to announce SDG initiatives. Some companies have increasingly demonstrated in their regulatory reports and websites that they aim to address social issues through business activities. Legitimacy theory can explain this corporate behaviour (Deegan et al., 2002; Gray et al., 1995; Hogner, 1982; Lindblom, 1994; Patten, 1992). Legitimacy is a status or condition when an entity's value system is congruent with the value system of the more extensive social system of which the entity is a part (Lindblom, 1994). Legitimation is the process underlying that state. According to industry association policies, companies may enforce SDGs to seek legitimacy.

However, materiality, which refers to prioritised business challenges and goals that companies select to maintain business continuity, is likely to be misunderstood in Japanese regulatory reports. Some companies disclose ESG information in regulatory reports. However, such information may be compiled based on the company's perspective rather than the stakeholders' perspective, and they may or may not document stakeholder engagement.

3. DEVELOPMENT OF MANDATORY SUSTAINABILITY DISCLOSURES

Many scholars have focused on the challenges associated with mandatory sustainability and ESG disclosures. Previous studies have highlighted how the financial impact of sustainability issues is ignored (Petersen et al., 2022) despite the potential positive impact on the economic performance of a company (Coelho et al., 2023); moreover, they presented challenges in concept and practice (Zaid and Issa, 2023) and argued for changing reporting characteristics (de Villiers and Dimes, 2023). Various global initiatives supported by authoritative bodies have attempted to resolve issues related to mandatory sustainability disclosures. The following section discusses these developments, including the integrating multiple standard setters for sustainability reporting and different jurisdictional contexts.

3.1. Task Force on Climate-related Financial Disclosures (TCFD)

The TCFD (see Table 1) is an influential organisation that plays a pivotal role in institutionalisation by providing a climate-related information disclosure framework. The Financial Stability Board (FSB), which is an international organisation established in April 2009 that is engaged in activities to address vulnerabilities in the financial system and promote cooperation among the different authorities responsible for financial system stability (Bank of Japan, n.d.); created the TCFD in 2015 to improve and enhance financial information reporting in investment markets (TCFD, n.d.). The TCFD operates under the approval of this international financial authority, and it issued recommendations in 2017 designed to apply to various organisations across industries and jurisdictions. Moreover, this task force provided a framework applicable to disclosures in regulatory and corporate financial reports in countries worldwide.

The TCFD framework has a specific structure that was later adopted as the basis for institutional disclosures in various countries. The structure comprises four core organisational and operational themes: governance, strategy, risk management, and metrics and targets. After completing its initial role, the TCFD was dissolved in 2023 at the request of the FSB, which has asked the IFRS Foundation, the International Accounting Standards Board (IASB) parent body responsible for developing International Financial Reporting Standards (IFRS) (IFRS Foundation, n.d.), to succeed the monitoring of the progress of companies' climate-related financial disclosures (TCFD, n.d.).

3.2. International Sustainability Standards Board (ISSB)

The ISSB (see Table 1) is a strong organisation in the area of disclosure because global financial markets support it. The ISSB, whose establishment was announced globally at COP26 (2021 UN Climate Change Conference) in Glasgow, is responsible for developing standards that will result in a high-quality, comprehensive global baseline of sustainability disclosures focused on the needs of investors and financial markets (IFRS Foundation, n.d.). The ISSB is a non-profit organisation under the IFRS Foundation.

ISSB standards have become globally authorised in international financial markets and are supported by the International Organisation of Securities Commissions (IOSCO). IOSCO was established in 1983 as the global body responsible for developing, implementing, and promoting compliance with internationally recognised standards in the securities sector (IOSCO, n.d.).

During its establishment, the ISSB took over the resources of three leading international organisations with experience in developing sustainability reporting frameworks and standards. These three organisations merged with the ISSB and transferred their know-how and human resources to the ISSB. One merged organisation is the International Integrated Reporting Council (IIRC), a globally based coalition of regulators, investors, companies,

Table 1: The development of international organisations for sustainability reporting frameworks and standards

Event	Year
The Climate Disclosure Standards Board (CDSB) was established.	2007
The Sustainability Accounting Standards Board (SASB) was established.	2011
The International Integrated Reporting Council (IIRC) <IR> Framework was issued.	2013
The Task Force on Climate-related Financial Disclosures (TCFD) was established.	2015
The TCFD published its final recommendations.	2017
The revised version of the International <IR> Framework was released.	2021
The IIRC and SASB merged and integrated to form the Value Reporting Foundation (VRF).	2021
The ISSB was launched at the COP26 climate conference.	2021
The CDSB was absorbed into the ISSB.	2021
The VRF was integrated to the ISSB.	2022
The ISSB issued its first two international sustainability standards (IFRS S1 and IFRS S2).	2023
The IAASB issued an International Standard on Sustainability Assurance (ISSA) 5000.	2023
The TCFD was dissolved.	2023

Source: Authors' own elaboration.

standard-setters, accounting professionals, academicians, and NGOs (Integrated Reporting Organisation, 2021). The IIRC developed the International <IR> Framework, which accelerating the global adoption of integrated sustainability design and reporting. The first framework was initially published in 2013, and the framework was revised in 2021 (Integrated Reporting Organisation, 2021). Before the consolidation of the IFRS Foundation into the ISSB, integrated reporting was adopted across 43 countries and five different regions, with the majority from South Africa, followed by Japan and the United Kingdom (UK) (Lopes et al., 2023).

Another merged organisation is the Sustainability Accounting Standards Board (SASB), founded in 2011 in the US to develop industry-specific standards to guide organisations on how to disclose the financial impacts of sustainability issues per industry (Petersen et al., 2022). While SASB's standards suggest industry indicators for reporting on ESG categories, the extent of reporting on these issues is focused on the financial performance of the organisation and the needs of investors rather than other broad stakeholders (ElAlfy and Weber, 2019; Petersen et al., 2022; SASB, n.d.). Eventually, the IIRC and SASB were integrated to form the Value Reporting Foundation (VRF) in June 2021, which was absorbed by the ISSB in 2022.

The third organisation that merged with the ISSB is the Climate Disclosure Standards Board (CDSB), which was established in 2007 as an international consortium of companies and environmental NGOs to develop a corporate reporting model that treats natural and social capital on par with financial capital (IFRS, n.d.). The CDSB's framework is notable because it served as the basis for TCFD recommendations (IFRS, n.d.). In addition, the framework provides an approach applicable to reporting environmental information, including climate change, in key reports, such as annual, 10-K, and integrated reports. The CDSB was also absorbed into the ISSB in 2021 (Bainbridge, 2021; IFRS, n.d.).

The IIRC, SASB, and CDSB provide frameworks or standards for sustainability reporting from an investor perspective, focusing on corporate value, implying that these three organisations have the same objectives as the ISSB. Conversely, apart from these three organisations, the CDP, which is a nonprofit charitable organisation that has operated a global environmental disclosure system for the past 20 years (CDP, n.d.), and the Global Reporting Initiative (GRI), which has developed a global sustainability reporting standard to help companies communicate and maintain accountability for their impacts on the environment, economy, and people (GRI, n.d.), have delivered global best practices related to sustainability information. The CDP, GRI, and ISSB are working together to harmonise sustainability reporting standards (CDP, n.d.). Direct financial factors have affected the IIRC, SASB, and CDSBs' frameworks, whereas the CDP and GRI have been affected by sustainability and ethical issues (Pizzi et al., 2023).

Regarding climate change, the ISSB standards reference the TCFD framework, which adopts four core elements: governance, strategy, risk management, and metrics and targets. On 26 June, 2023, the ISSB issued its first two new standards: IFRS S1: General Requirements for Disclosure of Sustainability-Related Financial Information and IFRS S2: Climate-Related Disclosures (IFRS Foundation, n.d.). These standards are based on recommendations issued by the TCFD. Moreover, IFRS S2 will be incorporated into CDP's existing questionnaires (CDP, 2022).

Another key feature of the ISSB approach is its compliance coverage. The ISSB approach towards standards does not indicate which companies will be covered or when since the ISSB envisages that their standards are the baseline for mandatory sustainability disclosure standards in each capital market jurisdiction. For example, IFRS S1 and S2 became effective on 1 January, 2024; therefore, reporting under these standards began as early as 2024. However, whether applying these standards are mandatory depends on regulators' decisions in each jurisdiction. This ISSB approach is similar to the sibling's financial standards approach and is expected to be applied in national and regional mandatory disclosure regimes.

Finally, the ISSB, the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) are expected to collectively contribute to a more robust sustainability information disclosure regime in the international capital market (IAASB, 2023). The IAASB, an independent standards-setting body responsible for developing globally consistent high-quality international standards for auditing, quality control, review, other assurance, and related services for auditing and assurance profession, including certified public accountants and chartered accountants, issued the International Standard on Sustainability Assurance (ISSA) 5000 in 2023 (IAASB, n.d.). The IESBA, establishing international ethical rules for certified public accountants and chartered accountants when conducting audits and assurance to support transparent, appropriate, and reliable sustainability reporting, launched two exposure drafts related to sustainability reporting and assurance in 2024 (IESBA, n.d.).

3.3. European Union (EU)

In the last decade, the EU established and strengthened its institutional framework for reporting information on sustainability matters. In 2013, the EU began considering an EU Non-Financial Reporting Directive (NFRD) for the disclosure of non-financial and diverse information (Directive 2014/95/EU) for large companies and groups (on a consolidated basis). The NFRD was published in 2014 for implementation in 2017, and reporting practices began in 2018 (EU, 2014).

The EU published its Green Deal in 2019 to achieve sustainability and economic growth, including the goal of climate neutrality by 2050. Subsequently, the NFRD was transferred to the Corporate Sustainability Reporting Directive (CSRD) in 2022 and entered into force in January 2023 (EU, 2022). In response, member states were obliged to adopt it under national law within 18 months of enactment. Notably, EU authorities replaced the term non-financial information with the term sustainability information. Thus, although ethical concepts such as sustainability do not necessarily correspond to a business tone, the concept of sustainability was officially introduced into the domain of institutional corporate disclosure. The CSRD enforces the disclosure obligations of the NFRD and expands its scope of eligibility.

Consistent with the CSRD, the European Sustainability Reporting Standards (ESRS) have established reporting standards for the CSRD's implementation. The European Commission adopted the ESRS in 2023, which became applicable in January 2024 (EU, 2023). The ESRS can be referred to as the specific translation of the CSRD with a fixed application time.

The ESRS application was phased out by dividing the targets into different categories, including company size. Moreover, the ESRS shifted third-party assurance levels from limited to reasonable.

3.4. National policy in the UK

The UK was the first G20 country to require the largest companies to disclose material climate-related financial information by law from April 2022 (GOV. UK, n.d.), and the UK Treasury published a roadmap towards mandatory disclosure over the next 5 years (HM Treasury, 2020). These policies are consistent with TCFD recommendations. In January 2021, an amendment to the UK Companies Act revealed the phased application of disclosure requirements to companies, including the UK's largest trading companies, banks, and insurance companies, as well as private companies with over 500 employees and £500 million in turnover. This mandatory disclosure requires companies to consider the risks and opportunities associated with climate change and encourages them to pursue emission reductions (GOV. UK, n.d.).

Since its establishment, the UK government has strongly supported the ISSB and intends to assess the suitability of IFRS S1 and S2 for endorsement in the UK by July 2024. The UK government also wants to introduce the first two UK Sustainability Disclosure Standards related to corporate disclosures of sustainability-related risks and opportunities companies face. These standards are based on the ISSB standard (GOV. UK, n.d.).

3.5. National policy in the US

The US Securities and Exchange Commission (SEC), which has been granted broad authority over all aspects of the securities industry by federal securities laws to protect investors, maintain fair, orderly, and efficient markets, and promote capital formation, adopted the institutional climate-related disclosure rule in March 2024 (SEC, 2024a, 2024b). The SEC's effort to institutionalise this rule took approximately 15 years. The Commission's Guidance on Disclosure Related to Climate Change was proposed in 2010 (SEC, 2010), although it was limited because of its association with provisions within the scope of existing SEC rules. Thus, it did not impose an additional burden and was not obligatory.

The SEC adopted amendments to its rules under the Securities Act of 1933 and the Securities Exchange Act of 1934 to standardise mandatory climate-related disclosures for public companies and public offerings. The rules, entitled 'The Enhancement and Standardisation of Climate-Related Disclosures for Investors, are expected to meet investors' needs for more consistent, comparable, and reliable information about the financial impact of climate change-related risks on the operations of registered companies and how the companies manage those risks. The rules also balance concerns about mitigating the associated costs (SEC, 2024a).

The rules' disclosure items include climate-related risks and opportunities and their impact on strategy, business models and governance, risk management, and goals, similar to the TCFD's disclosure items. These rules articulate the specifics that must be disclosed by companies, such as information on significant Scope 1 emissions, which refer to a company's direct emissions from fuel combustion and industrial processes, and/or Scope 2 emissions, which refer to indirect emissions from the use of electricity, heat, and steam supplied by other companies (SEC, 2024b). To enhance the reliability of disclosure information, these rules mandate that climate risk disclosures be included in regulatory annual reports and registration statements rather than solely presented on company websites. They also require limited assurance reports to disclose Scope 1 and Scope 2 emissions.

3.6. National policy in Japan

The Japanese institutional disclosure of sustainability information was introduced in 2023 under the Financial Instruments and Exchange Law of the Japanese Financial Services Agency (JFSA). The JFSA is a supervisory authority with jurisdiction over listed companies' disclosures in securities markets and a regulatory authority for financial institutions (JFSA, n.d.). The Cabinet Office Ordinance was amended in the annual securities report 'Yukashoken Hokokusyo,' which addresses the financial results for the financial year ending 31 March, 2023, and a new section was included to describe 'sustainability policies and initiatives' (Cabinet Office, 2023). The employee status section of the report mandates the disclosure of three specific indicators of diversity by the Law for the Promotion of Women's activities: ratio of female managers, percentage of male employees taking parental leave, and gender pay gap.

The Sustainability Standards Board Japan (SSBJ) was established in July 2022 under the Financial Accounting Standards Foundation (FASF), which is its funding body (SSBJ, n.d.). The FASF is the funding body of the Accounting Standards Board of Japan (ASBJ) and the private sector standard setter for financial accounting (SSBJ, n.d.). The SSBJ aims to provide input for developing ISSB standards and Japanese sustainability standards and guidelines. This board reports to the Prime Minister on the content of the standards and guidelines when developed. However, specific issues, such as the legal status of the SSBJ, incorporation of the SSBJ's sustainability standards into statutory disclosures, third-party assurance, and its providers, have not been enacted in the law.

The Japanese Institute of Certified Public Accountants (JICPA) was established in 1949 and is primarily organised by certified public accountants (JICPA, n.d.). The JICPA has been developing educational programs related to the disclosure of sustainability information and its assurance. The development of educational materials and professional accountant education depends on the global direction and related national policies/regulations.

The Tokyo Stock Exchange (TSE) is the largest stock market in Japan, and it has three market segments: prime, standard, and growth. Companies listed on the Prime Market must disclose climate change information in line with the TCFD recommendations as part of the Japanese corporate governance code (TSE, n.d.). This is a voluntary requirement, and companies must either comply with the recommendations or explain their reasons for not doing so.

In summary, investors' institutionalisation of sustainability disclosures, regardless of jurisdiction, proceeds almost simultaneously. This state of development is consistent with the description of isomorphism in institutional theory (DiMaggio and Powell, 1983). Since the introduction of the TCFD, international financial markets have introduced climate-related information disclosure regimes that are similar to the TCFD framework at the national, regional, and international levels. Global efforts to develop a framework to ensure the reliability of information in collaboration with the ISSB, IAASB, and IESBA are ongoing, and the results of these efforts will influence national and regional frameworks. However, the companies that are subject to disclosure and sustainability information contents differ in each country and region. Furthermore, the type of market and company governance required to ensure accountability for sustainability achievement should be further considered.

4. DISCUSSION AND CONCLUSION: ESG ACCOUNTABILITY CHALLENGES

Many scholars have argued that voluntary ESG information disclosure tends to cause false reporting that differs from reality and greenwashing, which was first mentioned by Westerveld (de Freitas Netto et al., 2020; Pearson, 2010) and is the practice of spreading false information to consumers regarding a company's environmental activities and the environmental benefits of its products and services (Baum, 2012). The legality of greenwashing remains debatable due to the lack of a clear legal definition. For example, in the UK, although specific regulations do not prohibited greenwashing, the Consumer Protection from Unfair Trading Regulations 2008 can help prevent greenwashing when companies' actions or omissions cause or are likely to cause consumers to enter into transactions that they would not have otherwise engaged in (Hawkins, 2022). Greenwashing regulations may also be related to disclosures, including negative and positive information disclosures on a company's environmental performance (de Freitas Netto et al., 2020). According to Baum (2012), greenwashing was observed in 75% of advertisements in major magazines in the UK, while the proportion was even higher in the US. The author indicated that without regulations, companies tend to use greenwashing as a dishonest means of enhancing their reputation. Using a large sample of US firms from 2005 to 2019, Gome et al. (2024) showed that religious social norms, such as corporate selective disclosures, may influence greenwashing behaviours. Zhang et al. (2023) investigated Chinese listed firms from 2010 to 2018. They found that environmental performance was negatively correlated with greenwashing, the environmental performance of firms receiving environmental protection subsidies had a greater effect on curbing greenwashing, and the negative effect of environmental performance on greenwashing of state-owned firms was more significant than that of non-state-owned firms.

Similar terms, such as rainbow- or SDG-washing, have also been reported in the literature (Heras-Saizarbitoria et al., 2022; Moratis and Melissen, 2019; van der Waal and Thijssens, 2020), and they refer to symbolic rather than substantive commitments to SDGs. Rainbow- or SDG-washing are the methods of improving a company's reputation by superficially addressing SDGs without integrating and contributing to the goals (Beyne, 2020). The literature criticised that these practices were contrary to credible and transparent ESG disclosure, which is critical for accountability towards sustainability. Heras-Saizarbitoria et al. (2022) conducted a qualitative analysis of the SDGs efforts of 1,370 organisations in 97 countries in their Sustainability Reports and revealed that most organisations are superficially committed to the SDGs. The authors showed that while a small number of companies mentioned specific strategies, goals, targets, indicators, actions, and results, most had a superficial approach and tended to engage in 'SDG icon-picking' using colourful icons of the SDGs to provide an impression that they adhere to relevant strategies and actions.

Lokuwaduge and De Silva (2022) indicated that while traditional financial reporting is regulated, mandated, and required to meet qualitative characteristics, such as reliability, comparability, materiality, and comprehensibility, sustainability reporting is not consistently regulated worldwide. Thus, a global framework is necessary to increase comparability and transparency and reduce the complexity of ESG disclosure. In addition, Izzo et al. (2020) investigated the voluntary disclosure of SDGs by Italian listed companies. They found that awareness of the SDGs in the business community was high. Most highly listed, liquid, and well-capitalised Italian companies adopted the SDGs in their disclosure and storytelling practices. However, the authors also revealed that the exact nature and requirements of the SDGs and the definition of specific key performance indicators (KPIs) related to the goals were unclear. Therefore, a better understanding of the nature of SGDs information and the establishment of specific KPIs commensurate with the SDGs remain essential tasks.

The prescribed motivation of accountability is to hold organisations accountable for resources being used. Companies are accountable to their stakeholders, and ESG reporting is a means of expressing responsibility. Accountability is fulfilled if transparency exists in the report's content and an explanation of policies, actions, and results. Moreover, suppose transparency is related to the quality of disclosures. In that case, governance, internal controls, and third-party assurance for such reporting should be considered essential because these practices are related to ensuring quality. Greenwashing can be a concern, especially with rising litigation over various aspects of ESG. In addition, management accountability is increasingly being questioned as information credibility is scrutinised.

As corporate ESG information disclosures have become institutionalised in developed countries and regions, a better understanding of the nature of ESG and stakeholder information is essential. In addition, to ensure the transparency, stability, and soundness of the capital markets to which information is disclosed, the accountability and reliability of the information are increasingly important. Stable accountability practices can reduce information asymmetry between companies and stakeholders and achieve sustainability.

This study reviews the debatable nature of ESG information, introduces recent developments in institutional disclosure, and identifies the challenges to ESG information accountability. The archival documents are limited to recent documents as the focus of the discussion is the updated status of the discourse instead of the historical evolution of the discourse. Moreover, this study emphasises that while the scope of the three ESG components (environmental, social, and governance) is broad, they affect organisations' interactions with stakeholders, such as investors, consumers, and employees. The scope and content of ESG disclosures can expand over time and through public perception. Thus, these three components will continue to be interrelated. Authorities must recognise the significance of identifying ESG components relevant to the specific context of different companies rather than prescribing a single definition of ESG information for all organisations. They should approach them in diverse ways, both internally and externally.

The ISSB Sustainability Disclosure Standards and other sustainability disclosure standards may not be suitable for adoption and implementation in every jurisdiction of stock exchange if one does not fully understand the nature of ESG information and attempts to interpret the implications of the requirements of these standards carefully. Adopting the standards is a call for preparedness in expertise and technology for implementing the standards and enforcing legal compliance. Interpreting the implications of the requirements demands both an understanding of the commitment to implement the standards on the corporate side and the skill to educate for the changes and measure the success.

While institutionalisation can encourage disclosure, the varying measures and requirements of standards allow company management to interpret and apply them as they see fit, potentially leading to greenwashing. Therefore, it is essential to establish specific measures of ESG accountability at the capital market level before adopting standards to combat greenwashing, enhance accountability, and prevent litigation. Thus, establishing a sound market and sustainable governance at the company level is warranted. Given the nature of this information, future research should address issues such as adopting artificial intelligence in sustainability reporting.

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