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REDEFINING ESG REPORTING IN DEVELOPING ECONOMIES: HOW BENEFICIAL IS GOVERNANCE MECHANISMS AND REGULATORY STRINGENCY?

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Abstract

In an era where corporate responsibility and sustainability are under increasing scrutiny, environmental, social, and governance disclosure (ESGD) has emerged as a key indicator of a company's ethical and operational integrity. Yet, the drivers of effective ESG disclosure remain poorly understood, particularly with regard to the role of sustainable governance structures and the moderating influence of regulatory stringency. This study seeks to address this gap by investigating how various governance attributes affect the quality and scope of ESG disclosure, while also examining how regulatory stringency may enhance or constrain these relationships. Using a panel dataset of 4,032 firm-year observations, the study applies the two-step system GMM modeling to provide robust empirical insights, validated through various robustness and sensitivity checks. The findings reveal that gender-diverse boards and the presence of foreign nationals significantly promote ESGD, underscoring the importance of diversity in fostering transparent corporate practices. Additionally, board size and independence are positively correlated with better ESG disclosure, whereas CEO duality exerts a negative impact. Notably, the study also finds that regulatory environment not only directly influences ESGD but strengthens the effectiveness of corporate governance mechanisms in promoting robust disclosure practices. These results highlight the critical interplay between internal governance structures and external policy frameworks in shaping corporate transparency on ESG issues. The study contributes to the growing body of literature on corporate sustainability, offering valuable implications for companies, policymakers, and investors seeking to enhance the quality and effectiveness of ESG disclosures.

Key words: developing countries, environmental management, ESG disclosure, regulatory environment, sustainable governance

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