



Review Article

Foundations, Frameworks, and Evolving Paradigms of Environmental, Social and Governance (ESG)

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ABSTRACT

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Environmental, Social, and Governance (ESG) criteria have emerged over the past two decades as a dominant framework for evaluating corporate sustainability, stakeholder accountability, and long-term value creation. This foundational paper systematically examines the theoretical origins, definitional evolution, and empirical evidence underpinning ESG as a multidimensional governance construct. Drawing on seminal scholarship in corporate social responsibility (CSR), stakeholder theory, agency theory, and institutional economics, the paper traces ESG's conceptual lineage from early socially responsible investment principles through its institutionalization in global reporting standards and regulatory regimes. It critically interrogates the structure of each pillar, Environmental (E), Social (S), and Governance (G), identifying areas of conceptual strength, measurement ambiguity, and normative contestation. The paper further examines ESG's growing integration into capital markets, highlighting evidence on performance linkages, rating divergence, and greenwashing risks. It concludes by identifying key research frontiers, including the reconceptualization of the social pillar, the challenges of ESG in emerging-market contexts, and the tension between disclosure-based compliance and substantive sustainability outcomes. The paper is intended to serve as a conceptual and bibliographic anchor for scholars entering or deepening engagement with the ESG research domain.

1. Introduction

Environmental, Social, and Governance (ESG) criteria represent one of the most consequential conceptual developments in contemporary corporate governance and investment theory. Originating from the early discourse on socially responsible investment (SRI) and the foundational stakeholder turn in management theory, ESG has evolved from a peripheral ethical orientation into a mainstream governance technology employed by investors, regulators, rating agencies, and corporate boards worldwide. The global ESG asset base exceeded USD 35 trillion in 2022 and is projected to surpass USD 50 trillion by 2025, constituting more than a third of total global assets under management (Bloomberg Intelligence, 2021).

Yet ESG remains, in important respects, a contested construct. Despite its rapid institutionalisation, persistent debates surround its definitional boundaries, measurement consistency, normative foundations, and actual effectiveness in producing sustainability outcomes. Scholars have questioned whether ESG constitutes a coherent theoretical framework or a politically convenient aggregation of heterogeneous concerns (Chatterji et al., 2016). Empirical work on the relationship between ESG performance and financial returns produces mixed and context-dependent results (Friede et al., 2015). Meanwhile, the proliferation of ESG rating agencies has produced a paradox of quantification: firms receive divergent scores from different raters on the same underlying data, raising fundamental questions about reliability and construct validity (Berg et al., 2022).

This paper offers a foundational overview of ESG as a scholarly and practical domain. It traces the conceptual origins of

ESG, examines the theoretical architectures that underpin each pillar, surveys the key empirical literature, and identifies emerging debates and research gaps. The paper is structured to serve as a scholarly primer for researchers engaging with ESG, whether approaching it from management, law, finance, accounting, sociology, or public policy perspectives. This paper adopts a narrative and conceptual review approach, synthesising interdisciplinary scholarship across management, finance, law, and public policy. The literature has been selected based on its theoretical influence, empirical relevance, and contribution to key ESG debates, with particular emphasis on studies shaping contemporary academic and regulatory discourse.

2. Conceptual Origins and Theoretical Foundations

This Section situates ESG within its broader intellectual and institutional evolution, tracing how normative debates on corporate responsibility transformed into a globally embedded governance and investment framework.

2.1 From Social Responsibility to ESG

The intellectual lineage of ESG can be traced to mid-twentieth-century debates about the social obligations of corporations. Bowen's (1953) seminal work, *Social Responsibilities of the Businessman*, is widely credited as founding corporate social responsibility (CSR) as an academic field. Bowen argued that businesses, as major centers of decision-making power, bear obligations to society extending beyond profit maximization. This normative claim was radicalized in its opposite direction by Friedman (1970), whose doctrine that the sole social responsibility of business is to increase shareholder

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profits provided the dominant counter-position. The Friedman-Bowen tension, between shareholder primacy and broader stakeholder accountability, continues to animate contemporary ESG debates.

The theoretical infrastructure of ESG was substantially shaped by Freeman's (1984) stakeholder theory, which reconceived the firm not as an agent of shareholders alone but as a nexus of relationships with a wider set of constituencies, employees, customers, suppliers, communities, and regulators. Stakeholder theory provided ESG with a normative justification: corporate decisions should account for the interests of all parties affected by firm behavior, not merely those who hold equity claims. Building on this, institutional theory (DiMaggio & Powell, 1983) explained how ESG norms spread: firms adopt ESG frameworks not solely because they are intrinsically beneficial, but because conformity with institutional expectations, from investors, regulators, and civil society, confers legitimacy.

2.2 The United Nations Global Compact and Investment Mainstreaming

The contemporary ESG framework gained decisive institutional momentum with the United Nations Global Compact (2000) and the subsequent publication of the Freshfields

Bruckhaus Deringer report (2005), which argued that integrating ESG considerations into investment analysis was permissible, and arguably required, under fiduciary duty. The launch of the UN Principles for Responsible Investment (UNPRI) in 2006, with backing from the UN Secretary-General and major asset managers, marked ESG's formal integration into institutional investment practice (UNPRI, 2006). The term "ESG" itself is widely attributed to the 2004 "Who Cares Wins" report commissioned by the UN Global Compact, which explicitly proposed that embedding ESG criteria in capital market analysis would lead to more sustainable markets and better long-term outcomes for society (UN Global Compact, 2004).

This framing was significant: ESG was not positioned as philanthropy or regulatory compliance, but as a mechanism for aligning long-term financial value with sustainable societal outcomes. The implication, that ESG is both ethically desirable and financially rational, became the dominant paradigm legitimising ESG integration in mainstream asset management.

Having traced the conceptual and institutional evolution of ESG, the following section disaggregates the framework into its three constituent pillars, examining their internal structure, measurement logics, and domain-specific challenges.

3. The Architecture of ESG: Pillar Analysis

Table 1 summarizes the focal domains and representative metrics across the three ESG pillars prior to the detailed analysis in Sections 3.1–3.3.

Table 1. ESG Pillar Architecture: Focal Domains and Representative Metrics

Pillar	Core Focus Areas	Key Metrics
Environmental (E)	Climate change, carbon emissions, water stewardship, biodiversity, circular economy, pollution control	GHG emissions (Scope 1, 2, 3), energy intensity, water withdrawal, waste diversion rate, TCFD disclosures
Social (S)	Labour standards, health & safety, supply chain responsibility, community relations, diversity & inclusion	Lost-time injury rates, living wage compliance, gender pay gap, supplier audit coverage, workforce diversity ratios
Governance (G)	Board composition and independence, executive remuneration, anti-corruption, shareholder rights, transparency	Board independence (%), CEO pay ratio, audit committee quality, whistleblower policy, tax transparency

Note. Adapted from GRI Standards (2021) and SASB Industry Standards (2018).

3.1 The Environmental Pillar

The Environmental pillar addresses how firms interact with natural systems and the ecological consequences of their operations, supply chains, and products. Scholarly and practitioner attention has concentrated heavily on climate-related risk, following the influential Task Force on Climate-related Financial Disclosures (TCFD, 2017) framework, which provided a globally recognized architecture for disclosing climate governance, strategy, risk management, and metrics. Dietz et al. (2016) estimated that climate risks could devalue global financial assets by trillions of dollars under plausible warming scenarios, providing a financial rationale for environmental due diligence that goes beyond ethical imperatives.

Environmental metrics are generally considered the most technically developed of the three pillars, owing to the relative tractability of physical measurement (energy consumption, water

withdrawal, waste generation) and the existence of established international standards such as those of the GHG Protocol and the Global Reporting Initiative (GRI). However, significant challenges remain, including the accounting of Scope 3 (value chain) emissions, the treatment of biodiversity and ecosystem services, and the verification of disclosed data. Concerns about greenwashing, defined as the deliberate or negligent misrepresentation of environmental performance through ESG disclosures, have prompted increasing regulatory scrutiny in jurisdictions including the European Union, the United States, and India (Gillan et al., 2021).

Taken together, the literature suggests that the Environmental pillar is the most operationally mature component of ESG, though its apparent precision masks unresolved issues of boundary definition and verification.

3.2 The Social Pillar

The Social pillar is arguably the most theoretically underspecified of the three, encompassing labor practices, human rights, health and safety, supply chain responsibility, community engagement, and diversity and inclusion. Its definitional breadth creates measurement challenges: unlike greenhouse gas emissions, social constructs such as "inclusion," "dignity," and "fair wages" do not reduce to a single metric and are inherently contested across legal, cultural, and institutional contexts.

Within the Social pillar, gender diversity has received disproportionate academic and regulatory attention, largely because board composition is observable, legally enforceable, and symbolically legible. Meta-analytic evidence suggests a positive but modest and heterogeneous relationship between female board representation and corporate social performance (Byron & Post, 2016; Post & Byron, 2015). However, critical scholars have argued that board-centric indicators conflate elite representation with substantive inclusion, obscuring structural inequalities in remuneration, occupational segregation, and workplace safety that characterize the broader workforce (Kanter, 1977). This limitation becomes particularly acute in emerging economies such as India, where labour informality and gendered occupational segregation render board-level metrics structurally disconnected from the experiences of most women workers.

The review indicates that the social pillar combines high normative ambition with low measurement consensus, resulting in a persistent gap between what is conceptually valued and what is empirically captured.

3.3 The Governance Pillar

Corporate governance, encompassing board independence, executive compensation alignment, anti-corruption practices, and

shareholder rights, has the most extensive academic lineage of the three pillars. Agency theory (Jensen & Meckling, 1976) provides the foundational frame: governance mechanisms exist to align managerial behavior with shareholder interests in contexts of information asymmetry and moral hazard. ESG governance indicators extend this framework to encompass stakeholder-oriented accountability, including transparency in political lobbying, supply chain oversight, and whistleblower protection.

Empirical research has demonstrated that stronger governance is associated with lower cost of capital, lower earnings management, and higher firm valuation (Core et al., 1999). The governance pillar has benefited from more standardized disclosure norms, partly due to the long history of corporate governance codes in major jurisdictions, but important cross-national variation persists, with concentrated ownership structures in many emerging economies complicating the application of governance criteria developed in Anglo-American contexts (La Porta et al., 1998).

Section 3 synthesizes the three pillars of ESG: Environmental, Social, and Governance, by highlighting their distinct conceptual bases, measurement logics, and empirical challenges. As summarized in Table 2, the Environmental pillar benefits from relatively robust standardization and quantifiability, while the social pillar remains conceptually diffuse and methodologically contested. The Governance pillar, in contrast, draws on a well-established theoretical and regulatory lineage but exhibits significant cross-national variation in application. Taken together, the table illustrates that ESG is not a uniform framework, but a composite construct marked by uneven levels of conceptual clarity, data reliability, and institutional maturity across its constituent dimensions.

Table 2: Summary of ESG Pillars

Pillar	Core Focus	Key Frameworks / Theories	Strengths	Key Challenges / Critiques
Environmental	Firm interaction with natural systems; climate risk; resource use; emissions	Task Force on Climate-related Financial Disclosures; Global Reporting Initiative; GHG Protocol	Most technically developed; quantifiable metrics (energy, emissions, water); strong global standards	Scope 3 emissions measurement; biodiversity accounting; data verification; greenwashing concerns
Social	Labour practices; human rights; diversity; inclusion; community impact	Stakeholder Theory; gender diversity literature (Byron & Post)	Expands corporate accountability beyond economics, increasing regulatory focus on diversity	Conceptual ambiguity; difficulty in measurement; over-reliance on board diversity; disconnect from ground realities (especially in emerging economies like India)
Governance	Board structure; executive pay; transparency; shareholder rights; anti-corruption	Agency Theory; corporate governance codes	Strong theoretical foundation; relatively standardized disclosures; clear link to financial performance	Cross-national variation; applicability issues in concentrated ownership systems; limited stakeholder depth in traditional models

Source: Prepare by the Researcher

Unlike the other pillars, governance benefits from a relatively consolidated theoretical and regulatory foundation, though its shareholder-centric origins continue to shape its limitations within ESG

4. ESG Measurement, Ratings, and the Divergence Problem

The quantification of ESG performance is mediated primarily through ESG rating agencies, including MSCI, Sustainalytics, Bloomberg, Refinitiv, and ISS, whose scores are used by investors in portfolio screening, engagement, and stewardship activities. However, a pivotal finding in the empirical literature is that ESG

ratings from different providers exhibit low and sometimes negative correlation with one another, creating what has been termed the "ESG ratings divergence" problem (Berg et al., 2022). In a landmark study, Berg et al. (2022) decomposed ESG rating disagreements into three sources: scope divergence (different agencies measuring different attributes), measurement divergence (different methods for the same attribute), and weight divergence

(different relative importance assigned to categories). Their analysis revealed that measurement divergence was the largest contributor, implicating fundamental differences in how agencies translate observable firm behavior into numeric scores.

This finding has significant implications. If ESG scores measure different things, their use as a basis for capital allocation, regulatory compliance, or academic research produces systematically misleading inferences. Chatterji et al. (2016) demonstrated that even leading social ratings show limited inter-rater agreement and questioned whether aggregated ESG scores can serve as valid indicators of social performance. In response, scholars have advocated for greater transparency in rating methodologies, the separation of ratings by pillar or issue, and the use of raw disclosed data rather than aggregated scores in empirical research.

While measurement challenges complicate the interpretation of ESG scores, a parallel body of literature has sought to evaluate whether these metrics translate into financial performance outcomes.

5. ESG and Financial Performance: Empirical Evidence

A central question in ESG research is whether high-ESG firms systematically outperform their lower-ESG counterparts, whether on a risk-adjusted return basis, cost of capital, or long-run value creation. The largest and most methodologically comprehensive review to date, Friede et al.'s (2015) meta-analysis of approximately 2,200 studies, found that approximately 63% of studies reported a positive relationship between ESG performance and corporate financial performance, approximately 10% found a negative relationship, and the remainder found neutral or mixed results. This aggregate finding has been interpreted as supporting a "business case" for ESG, though the authors cautioned that average effects mask substantial heterogeneity across industries, geographies, measurement approaches, and time horizons.

A nuanced interpretation of the ESG-performance literature emphasizes the importance of distinguishing between voluntary ESG integration and regulatory mandate, between ESG as a risk-management tool and ESG as a strategic differentiator, and between short-term and long-term performance horizons. Khan et al. (2016) provided particularly influential evidence by demonstrating that performance effects are concentrated in ESG issues that are financially material, as defined by the Sustainability Accounting Standards Board (SASB) industry-specific materiality frameworks, suggesting that undifferentiated ESG scores conflate financially relevant sustainability concerns with those that are immaterial to a given firm's value drivers.

In emerging markets, including India, the empirical evidence on ESG-performance linkages is comparatively thinner and more mixed, reflecting data limitations, institutional differences, and the recent vintage of mandatory ESG reporting frameworks. Broader reviews of ESG in emerging markets identify enforcement gaps, state ownership structures, and informal sector linkages as key moderators of ESG's effectiveness (Gillan et al., 2021).

Overall, the literature does not yield a uniform conclusion but instead indicates that ESG-performance relationships are contingent on issue materiality, measurement approach, and institutional context, underscoring the limitations of aggregated ESG indicators.

6. Global Reporting Standards and the Regulatory Landscape

ESG disclosure has been shaped by a proliferating ecosystem of voluntary frameworks and, increasingly, mandatory regulatory requirements. The most prominent voluntary standards include: the Global Reporting Initiative (GRI), which provides universal standards approach for sustainability reporting; the Sustainability Accounting Standards Board (SASB) standards, which take an

industry-specific materiality approach; the International Integrated Reporting Council (IIRC) framework; and the TCFD for climate-specific disclosures. The 2021 formation of the International Sustainability Standards Board (ISSB) under the IFRS Foundation represented a landmark consolidation effort, with the ISSB subsequently issuing IFRS S1 (General Requirements for Sustainability-related Disclosures) and IFRS S2 (Climate-related Disclosures) in 2023 to establish a global baseline for ESG reporting.

On the regulatory side, the European Union's Corporate Sustainability Reporting Directive (CSRD), which came into force in 2023, mandates detailed sustainability disclosures for large companies operating in the EU and represents the most far-reaching mandatory ESG reporting obligation globally (Sharma, 2025). In India, SEBI's BRSR framework, made mandatory for the top 1,000 listed companies by market capitalization from 2022-23, reflects a comparable shift from voluntary to mandatory sustainability reporting within the Indian regulatory architecture. BRSR aligns substantively with international frameworks including the GRI and the National Guidelines on Responsible Business Conduct (NGRBC), while embedding India-specific indicators on workforce composition, community engagement, and product responsibility.

The convergence of reporting frameworks represents a significant institutionalization of ESG, but scholars caution against conflating disclosure with performance. Mandatory reporting can improve information quality and comparability, but it may also generate compliance-oriented reporting behavior that prioritizes indicator optimization over substantive sustainability transformation (Eccles & Serafeim, 2013). This is particularly salient for the social pillar, where disclosure requirements may reward legibility, reporting what is easily quantified, over comprehensiveness.

The convergence of reporting standards reflects institutional consolidation, but the literature cautions that standardisation alone does not resolve underlying issues of comparability, enforcement, and substantive impact.

7. Emerging Debates and Research Frontiers

These debates reflect deeper tensions in ESG's evolution as both a measurement system and a normative framework. The section engages with the most contested and evolving dimensions of ESG, where its rapid institutionalization has generated new tensions around credibility, measurement, and accountability, opening a critical space for empirical scrutiny and theoretical refinement.

7.1 Greenwashing and the Credibility of ESG Claims

Greenwashing, defined broadly as the selective or misleading disclosure of environmental or social performance, constitutes a central integrity challenge for ESG. Empirical work has documented instances of firms achieving high ESG ratings while continuing or expanding environmentally or socially harmful practices, a phenomenon enabled by the flexibility of disclosure norms, the inconsistency of rating methodologies, and the limited third-party verification of reported data (Gillan et al., 2021). Recent regulatory responses, including the European Securities and Markets Authority (ESMA) guidelines on ESG fund naming and the U.S. Securities and Exchange Commission (SEC) climate disclosure rules, reflect a growing institutional recognition that voluntary commitment without enforceable standards is insufficient to prevent reputational exploitation of the ESG label.

7.2 The Social Pillar Reconceptualization

As noted in Section 3.2, the social pillar remains the least theoretically developed component of ESG. A productive research frontier involves reconceptualising inclusion, dignity, and voice

not as attributes of elite governance structures but as organisational capabilities embedded in workforce practices, supply chain standards, and institutional accountability mechanisms. This reconceptualization draws on feminist institutionalist theory (Mackay et al., 2010), Sen's capabilities approach, and substantive equality jurisprudence to argue for a multi-level understanding of social performance that extends beyond the symbolic representational indicators currently dominant in ESG scoring.

7.3 ESG in Emerging Markets

The dominant ESG paradigm has been developed primarily in the context of Anglo-American capital markets, listed corporations, and regulatory environments characterized by relatively strong institutional infrastructure. Its application in emerging markets, including India, China, Brazil, and Sub-Saharan Africa, raises distinctive challenges: high informality in labor markets, concentrated ownership and family firm structures, weaker enforcement of environmental and labor regulations, and limited capacity for third-party ESG verification. Emerging-market scholars have called for context-sensitive adaptations of ESG frameworks that account for these structural differences, rather than wholesale adoption of Western-origin standards whose normative assumptions may be poorly fitted to local conditions (Gillan et al., 2021).

7.4 ESG as Governance Technology versus Ethical Framework

A recurring theoretical debate concerns whether ESG should be understood primarily as a governance technology, a set of disclosure, risk management, and accountability tools designed to enhance long-run firm value, or as an ethical framework oriented toward social and environmental justice outcomes that may be irreducible to financial metrics. This distinction carries significant implications for how ESG is designed, measured, and regulated. Positioning ESG as a governance technology aligns it with shareholder value logic and financial materiality; positioning it as an ethical framework foregrounds obligations to non-investor stakeholders whose claims may not be fully captured in price signals. The resolution of this tension will shape the future trajectory of both ESG scholarship and practice (Eccles & Serafeim, 2013).

8. Conclusion

ESG has become a structuring concept in contemporary corporate governance, investment, and sustainability discourse. This paper has traced its conceptual origins in CSR and stakeholder theory, examined the architecture and measurement challenges of each pillar, reviewed the empirical evidence on ESG and financial performance, and identified key debates shaping the field's development. Several broad conclusions emerge.

First, ESG's theoretical foundations are more pluralistic and contested than its institutionalization as a measurement framework might suggest. The aggregation of environmental, social, and governance concerns into a single score or label entails significant conceptual compression, and much of the empirical inconsistency in the literature reflects this. Disaggregating ESG by pillar, issue, and context produces more tractable and meaningful research questions.

Second, the measurement infrastructure of ESG, while rapidly maturing through the consolidation of reporting standards and the emergence of mandatory disclosure regimes, remains vulnerable to greenwashing, rating divergence, and compliance-oriented behavior. Substantive advances require not merely more disclosure but better-designed disclosure: tied to outcome indicators, subject to independent verification, and calibrated to the material sustainability challenges relevant to specific industries and geographies.

Third, the social pillar represents the most productive frontier for conceptual development. Current frameworks over-rely on legible governance indicators, particularly board representation, at the expense of workforce-level conditions, supply chain accountability, and the structural determinants of substantive inclusion. Theoretically grounded reconceptualization of social performance is both a scholarly priority and a practical necessity for ESG to fulfil its normative promise.

Finally, the globalization of ESG must be accompanied by institutional sensitivity to the contextual conditions that shape sustainability challenges and governance capacities in emerging economies. The uncritical transfer of Anglo-American ESG frameworks risks misspecifying both the problems to be addressed and the metrics best suited to assess progress. A more genuinely global ESG scholarship must engage the institutional, political, and social specifics of diverse regulatory environments.

Viewed collectively, the literature suggests that ESG is best understood not as a unified framework but as an evolving assemblage of partially aligned concepts, metrics, and institutional practices. Its future development will depend on resolving tensions between measurement and meaning, disclosure and impact, and global standardisation and contextual relevance.

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