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The Role of Environmental, Social, and Governance Disclosure in Financial Transparency

Ionica Oncioiu [1,*], Delia-Mioara Popescu [2], Anca Elena Aviana [2], Alina Șerban [2], Florica Rotaru [2], Mihai Petrescu [2] and Andreea Marin-Pantelescu [3]

1 Faculty of Finance-Banking, Accountancy and Business Administration, Titu Maiorescu University, Bucharest 040051, Romania
2 Faculty of Economic Sciences, Valahia University, Targoviste 130024, Romania; deliamioara.popescu@yahoo.com (D.-M.P.); avianaancaelena.edu@gmail.com (A.E.A.); alinaserban.edu@gmail.com (A.Ș.); florica.rotaru.edu@gmail.com (F.R.); mihai_tina@yahoo.com (M.P.)
3 Faculty of Business and Tourism, The Bucharest University of Economic Studies, 010374 Bucharest, Romania; marin.andreea@com.ase.ro
* Correspondence: ionica.oncioiu@prof.utm.ro

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Abstract: In today's business environment, corporate governance and financial transparency have an impact on the performance of firms. These changes are important for understanding the widespread accessibility of relevant and reliable information regarding an entity's financial and nonfinancial aspects. The purpose of this study was to show how the environmental, social, and governance disclosure performance of companies has gained a reputation of having a fundamental role in financial transparency and how it varies by stakeholder orientation and economic sector. In this regard, we developed a new model based on stakeholders' perceptions to analyze the impact of environmental, social, and governance disclosure on financial transparency using the Analytic Hierarchy Process (AHP) method and select the economic sector that ensures transparency in sustainable and financial reporting. This model was applied over the 2008–2018 period to 143 companies from eight countries in the most representative economic sectors: finance, energy, and telecommunication services. Our results portray that environmental, social, and governance reporting are a company's means of communication with stakeholders, as part of their accountability and stewardship obligations, and at the same time, they are a tool for achieving transparency regarding the financial performance of a firm. Furthermore, our findings also showed whether environmental, social, and governance (ESG) disclosures act as a vector of financial communication for enterprises, and this relationship will also be evident in their role in financial transparency.

Keywords: corporate governance; financial transparency; corporate responsible behaviors; sustainability disclosure

1. Introduction

In an increasingly changing and complex world, companies have started operating in a turbulent environment, and their strategic management has been put in a position to adopt corporate responsibility to adapt them fully to the new conditions required by the new market specific to a sustainable economy [1–4]. However, in general, there are powerful pressure groups that claim that social and environmental indicators are still largely ignored by companies in their reporting [5–8].

In addition, various theories support the idea that social responsibility and corporate governance are some of the most useful tools for assessing this ethical behavior [9–11]. Based on the obligation of financial reporting at the end of each financial year, producing a report from which an entity's

economic performance can be analyzed, most authors consider that entities should also issue a report on social responsibility and corporate governance (this reporting can be either imposed by law or voluntarily issued by the entity) [12–15].

From a corporate governance perspective, the context of our study, the future of accelerating environmental, social, and governance (ESG) disclosure performance lies in two basic approaches of companies:

- First of all, awareness of the advantages brought forth by voluntary additional reporting compared to the requirements of certain specific norms of the Corporate Governance Code and even beyond these minimum requirements [16]. In our opinion, coinciding with previous studies [9,12], this would generate added value for companies that would cover the costs of implementing the concepts of sustainable development and reporting these concepts, thus not altering the overall efficiency of the business.
- Secondly, an integrated approach to sustainable development generates a greater overall efficiency than the sum of the individual efficiencies brought forth by the separate approach of the three dimensions of sustainable development [9,17–20].

On the other hand, financial scandals force companies to place more emphasis on corporate governance practices and financial transparency [21–23]. In this context, one of the main qualitative characteristics of accounting information is credibility, which implies the absence of significant errors, a lack of bias, and the correct and reasonable representation of reality, attributes that exclude the use of creative accounting practices [24–26].

Equally, the lack of a normalization of confidential accounting information opens the door to techniques for manipulating confidential accounting information and, implicitly, predisposes it to its approach with skepticism and a lack of credibility [27].

For the context of our research, reporting is a key ingredient in building, supporting, and continuously improving the participation of stakeholders. Moreover, the transparency of the disclosed financial information and the open dialogue on future performance, priorities, and plans in terms of social responsibility contribute to strengthening partnerships and building trust.

Another opinion is that users who are more informed about audit missions and their objectives better understand their responsibility, the independence auditors have, and the level of assurance they provide [28–32]. As a result, the auditor report now includes additional disclosures, a fact that has led to an increase in the transparency and the communicative value of the report. In the end, users search for credibility, and that is consistent with the lending credibility theory [30–33].

It is without doubt that corporate governance can bring a number of indisputable benefits [34–38] to an entity:

- It can prevent scandals at the corporate level;
- It can prevent fraud;
- It can help to improve the image of an organization, making it more attractive to customers, investors, suppliers, etc.

Literature suggests that the concept of social responsibility is obviously correlated with the performance of an entity, but the same authors [39–43] consider that the positive influence on performance would be much greater if there were no series of limits such as the following:

- The manifestation of medium- or long-term results;
- A lack of know-how in many companies;
- A lack of financial resources for the application of social responsibility;
- A lack of human resources to appreciate the opportunity to apply the principles of social responsibility.

As a result of this growing need, responsible corporate behavior, voluntary environmental disclosure, and financial transparency are important factors in determining the sustainable competitiveness of organizations [36–38].

Above all, environmental, social, and governance (ESG) disclosure performance and financial transparency are now major concerns of their stakeholders, investors, and consumers [33–38]. In order to satisfy the needs of internal and external stakeholders, companies invest important resources in producing ESG reports, thus achieving transparency regarding the respective performance of a firm [21]. In spite of that, it remains an open question whether ESG disclosure affects their financial performance and how.

The objective of the present research was to examine the relationships between ESG disclosure, financial performance, and financial transparency. More specifically, our motivation for this research was built on the two open questions discussed in this study: (1) is it possible for an ESG disclosure performance to suit the needs of and be considered useful for and agreed upon by all interested parties? Furthermore, (2) does the ESG disclosure process serve as a method of providing confidence in financial reporting quality? These questions are intended to measure the degree of interference between ESG disclosure, financial performance, and financial transparency, thus creating the setting to identify possible correlations.

To perform the analysis, we built a model to evaluate and select the economic sector from the viewpoint of ESG disclosure and to provide a true and fair view of the company's financial position. In this regard, a number of 143 companies from eight countries in the most representative economic sectors (finance, energy, and telecommunication services) provided complete and useful answers to this research. In fact, we employed control variables coming from the financial statements and ESG scores coming from the Thomson Reuters EIKON.

In line with the current acknowledged requirements of the stakeholders, our results indicate that the ESG dimension is significantly impactful on corporate reporting, along with financial reporting, financial transparency, integrated reporting, and others. Additionally, through the findings of this research, we managed to make contributions regarding the study of the transparency of financial reporting in relation to voluntary information and to expand the literature on the valences and influence of financial and nonfinancial reporting.

From a practical point of view, the results of this study highlight that companies' Boards of Directors from the economic sector, such as finance, energy, and telecommunication services, need to produce instruments to assess internal controls for financial or nonfinancial reporting, in order to decrease the company's susceptibility to fraud and wrongdoings. However, the present study highlights the necessity for an open discussion on the role of ESG disclosure in financial transparency. This role is rooted in the confidence in stakeholders' places in corporate governance. This trust is consequently a condition for ESG disclosure, pertinent and useful in the decision-making process and for testing financial performance and transparency.

This paper is organized as follows: Section 2 reviews the relevant specialty literature, details the methodology used, and outlines the dataset, while Section 3 proposes the empirical findings of the analyses, and the last section offers conclusions and discusses the policy implications.

2. Literature Review

In recent years, ESG disclosure has been the subject of substantial academic research, and it is difficult to assess corporate governance in terms of quantity or in terms of correlations between corporate governance and performance indicators [44–47]. In other words, there are still no established ways to analyze these types of correlations, which is highlighted in the reporting of positive, neutral, and negative relationships between the financial performance of a company and ESG [48].

2.1. Stakeholder Theory

Researchers explain the bridge between stakeholders, their needs from an assurance point of view regarding financial information, and the effectiveness in achieving the companies' sustainability goals [35,36]. According to stakeholder theory, social responsibility activities and disclosure provides an opportunity to demonstrate an organization's efforts toward sustainability, and thus, the company is perceived as trustworthy [33–35].

An analysis of how users understand the financial reporting quality is also accomplished; many stakeholders consider that more data provided in financial reports should be audited, thus reducing the expectation gap but increasing the workload of auditors and their exposure to auditing risks and potential liability and accountability [28]. Hence, through stakeholders' misunderstanding of the scope and conclusions of the auditor report, we consider that there is a serious weakness in the corporate governance system.

Many studies also provide additional evidence that a challenging area is ESG disclosure and discussions by stakeholders regarding the ongoing concern around financial reporting [34–37]. Moreover, they explain that the disclosure of ESG information is beneficial for businesses because it increases awareness of these issues in society, but it also helps to elucidate a business' environmental, social, and financial performance.

Other studies consider that maximizing the interests of stakeholders in terms of ESG disclosure factors will lead to an increase in the financial performance of the company and its shareholders [33–35]. In the long term, companies will try, on the one hand, to meet the needs of financial and nonfinancial performance and, on the other hand, to strengthen their relationship and trust with stakeholders.

Reinforcing the necessity to identify the possible correlations between corporate social responsibility practice and the firm's performance indicators is the fact that stakeholder theory explains who the stakeholders of a company are and the fact that all companies must strive to meet the expectations of all interested parties [35]. As a consequence, the present research draws attention to the role of stakeholders to ensure that all who have a stake in the business are protected.

2.2. The Relationship between ESG Disclosure and Financial Performance

One of the possible reasons for not reaching unanimity comes, on the one hand, as a consequence of the effect that each of the ESG disclosure dimensions has on performance indicators [49] and, on the other hand, as a stringent requirement to break down these dimensions into ESG composite indicators that examine the potential impact on financial performance and transparency [34].

This statement is supported by the need for a focused ESG composite indicator approach because the impact of ESG components varies significantly across countries and sectors or industries. For instance, at a European level, there are a set of scores reflecting the ESG composite indicators investigated in the economic sectors that offer a picture of its three main dimensions (environmental, social, and corporate governance) [50]. Complementarily, the allocation of the ESG composite indicators in each ESG disclosure's main component reflects the stakeholders' perceptions regarding the investigated issues [49,51].

On the other hand, the concept of ESG concerns a set of relevant environmental and governance-related elements that allow the assessment of long-term sustainability as a socially constructed item [52]. As for the reasons that they publish reports, the most common reason was to seek legitimacy from their external environment. This can imply the highest level of financial transparency by integrating the economic–financial parameters [53].

As for voluntary reporting, another study performed in Norway used triple-bottom-line elements to assess nonfinancial information on four categories: general corporate responsibility, management systems, codes of conduct, and supply chain management [54]. Additionally, the degree of internationalization, brand name, and public profile were suggested to have an effect on sustainability reporting [8,55–58].

Perhaps that is why the last years have brought a deepening of the nonfinancial dimension of the performance of an economic entity, a deepening that came with the drawing, adoption, and implementation of reporting principles. Consequently, in June 2017, the European Commission adopted the Non-Financial Reporting Guide to increase business transparency on social and environmental issues. The new guidelines help companies to meet their reporting obligations under Directive 2014/95/EU and promote the reporting of information on environmental, social, and employee issues; risks and outcomes; and compliance with human rights and diversity on boards [59].

However, equally relevant is the Global Reporting Initiative (GRI), which arose from the need for economic entities to assess the nonfinancial dimension of performance by producing a report showing the social economic and environmental impact [50]. This international initiative is important, especially when it has been adopted, in a way, as a benchmark in the EU.

In a developed study, Garvey et al. [60] found that companies differ in their degree of stakeholder orientation, which is reflected in the substantially addressed sustainability issues. Similarly, ESG disclosure is also likely to be more credible due to the more effective enforcement of ESG-related rules and the stakeholder orientation to enhance this mechanism [60,61].

It is worth noting that ESG disclosure could include and improve financial performance information by putting it in context and supplementing it with other nonfinancial information [62]. At the same time, to provide more relevant information to assess its nonfinancial and financial performance, more companies voluntarily produce ESG reports in addition to their financial statement [63].

In addition, many researchers find corporate governance to be positively related to an organization's financial performance, and ESG reporting contributes to a better financial performance with significant implications for assessing firm value [47,64–66]. In this regard, they use accounting-based measures such as return on asset (ROA), return on equity (ROE), and Tobin's Q [67–69]. However, in this study, we added the same qualitative-based performance measures such as financial leverage and tangibility in order to provide decision-makers with a clearer view of financial performance.

2.3. Connecting the ESG Disclosure and Financial Transparency

A lot of the literature discusses the link between the transparency of financial reporting and ESG disclosure [70–74]. Overall, more financial transparency is necessary in order to improve stakeholders' perception of the financial information quality [25,35], but we must stress the fact that this financial transparency is a difficult concept to measure. As such, we believe that without public confidence in environmental, social, and governance disclosure and financial information, corporate governance has no real value.

Researchers consider that the new standards will offer improved transparency, solidify trust in financial statements, and increase the levels of honesty and confidence between stakeholders and auditors [75–77]. Auditors, while being a stakeholder in the company, are also providers to the business; at the same time, auditors are also providers to other stakeholders. Therefore, the final product of accounting is the transparent financial statement, and for this reason, the quality of the accounting information is considered to be similar to that of voluntary reporting.

Previous studies have also shown that ESG disclosure reveals that better financial transparency can enhance firm reputation, which can translate into more favorable cash flow implications (accruals) [78–81]. They find that with the recognition of the potential benefits of ESG reporting and financial transparency, social responsibility is beginning to be seen by more and more companies as a core component of the strategic development component.

At present, to ensure the credibility of ESG and financial reports, it is necessary to ensure infrastructure-supporting quality auditing [76]. Some authors have shown that this indicator also reflects the influence of investments on the infrastructure on which quality auditing depends and also the scale of financial transparency [75–77]. Thus, the public confidence in the assurance that auditors provide for their services has diminished due to ineffective infrastructure-supporting quality auditing.

Most empirical research suggests that ESG disclosure is negatively associated with the cost of equity capital [82]. Disclosure can help to reduce information asymmetry among investors and managers [40,71]. For instance, ESG and financial reports can only distribute historical information to their users, which may not be relevant to investment decisions. As a result, a high level of financial transparency also reduces the monitoring cost of equity capital. Consistent with this view, further research engagement is needed in order to identify how financial and management systems might reduce their negative ESG information impacts. We extend this research by showing how the effect of ESC disclosure varies according to financial transparency and stakeholder orientation.

In the current context, even as the quantity of ESG information has grown exponentially, prior research has shown this reporting remains inadequate because it provides information that has a side-effect of voluntary and mandatory reporting [83–88].

For greater comparability and transparency of the disclosure of financial information, companies can also decide on how to disclose social responsibility reports, as creating a common accounting language has an impact on how to incorporate company-specific information into the report. This literature review consolidated different arguments suggesting that future research could study the impact of ESG disclosure on the financial performance and transparency of a company.

In this sense, the accounting regulations of many countries are moving towards what has been called the Nonfinancial Information Statement. That is why this study wishes to reinforce the argument of financial transparency through the integration of nonfinancial information based on ESG disclosure being the best framework for the completeness of information for rationally making economically sustainable decisions and improving company performance.

3. Methodology and Methods

Based on the abovementioned research motivation, this study adopts a research design using the Analytic Hierarchy Process (AHP) method [89], which has a feature that allows for qualitative and quantitative aspects in the analysis of multiple variables and can help stakeholders to reduce risk when making decisions because it decomposes a complex multivariable into a hierarchy. To achieve this, after establishing the hierarchy structure, we determined the pairwise comparison matrix X. Furthermore, we designed a three-level hierarchy by grouping the variables of weights into financial and nonfinancial information. The basis for establishing and calculating the selected variables was sustainable and financial indicators/indices, and we ranked the information needs of all stakeholders.

In the AHP process [90], we considered Y_1, Y_2, ... , Yn as the set of elements, while xij represents the quantified judgment on a pair of elements Yi and Yj. The relative importance of two elements is rated using a scale with the values 1, 3, 5, 7, and 9, where 1 stands for "equally important", 3 stands for "slightly more important", 5 stands for "strongly more important", 7 stands for "demonstrably more important", and 9 stands for "absolutely more important" [91]. This yields an *n*-by-*n* matrix X of the judgmental data provided by the group of respondents as follows:

$$Y_1\ \ Y_2\ \ Y_nX = \left[X_{ij}\right] = \begin{matrix} Y_1 \\ Y_2 \\ \vdots \\ Y_n \end{matrix} \begin{bmatrix} 1 & X_{12} & \ldots & X_{1n} \\ 1/X_{12} & 1 & \cdots & X_{2n} \\ \vdots & \vdots & & \vdots \\ 1/X_{1n} & 1/X_{2n} & \cdots & 1 \end{bmatrix}, \tag{1}$$

where xii = 1 and xji = 1/xij, i, j = 1, 2, ... , n.

Practically, the method considers qualitative and quantitative criteria and that the weights must be used only for the quantitative criteria (scores assigned to verbal judgments), which are the ones that prioritize the coefficient weighting, allowing the consistent quantification of the weight of each criterion in the analysis (see matrix consistency).

However, in matrix X, the problem becomes one of assigning to the n elements Y_1, Y_2, ... Yn a set of numerical weights ϕ_1, ϕ_2, ... ϕn that reflects the recorded judgments. If X is a consistency matrix,

the relationships between weights ϕi and judgments xij are simply given by ϕi / ϕj = xij (for i, j = 1, 2, . . . , n) [92]. In these conditions, the largest eigenvalue $\lambda_{\max}$ will be

$$\lambda_{\max} = \sum_{j=1}^{n} x_{ij} \frac{\phi_j}{\phi_i}, \quad (2)$$

and the eigenvector X can be calculated if X is a consistency matrix using the following formula:

$$(X - \lambda_{\max} \mathrm{I})\, X \;=\; 0 \quad (3)$$

The consistency of the comparison matrix is checked using the consistency ratio (CR) and the consistency index (CI), calculated as follows:

$$\mathrm{CI} \;=\; (\lambda_{\max} - \mathrm{n})/(\mathrm{n} - 1), \quad (4)$$

$$\mathrm{CR} = \mathrm{CI}/\mathrm{RI}, \quad (5)$$

where CI denotes the average consistency index over numerous random entries of the same-order reciprocal matrices. For the estimate to be accepted, CR ≤ 0.1 is required, unless a new matrix is requested and the accepted value is reached [89,90].

After the weights have been computed for various hierarchies and variables, the overall hierarchy weight is computed, ultimately leading decision makers to select the most optimal economic sector where ESG disclosure has the most impact on financial transparency.

The analyzed data were collected from the Bloomberg ESG data [93], Thomson Reuters EIKON database [94], and Sustainalytics' ESG financial reports [95]. All these databases are computed by weighting environmental, social, and governance disclosure performance. Concerning financial transparency, we took into account the information from the audit reports published by the sampled companies. As for financial information, we also collected data from the annual financial statements published by the sampled companies.

The selection of the sample took into account the results of previous studies, which showed that ESG disclosure culture and transparency of financial reporting were more likely to be widespread in countries such as Denmark, France, Italy, Netherlands, Spain, Switzerland, Sweden, and the United Kingdom [53,96,97]. When selecting the sample, we also took into account the fact that corporate transparency involves the widespread accessibility of relevant and reliable statistics regarding an entity's financial and nonfinancial aspects.

The research sample includes 143 companies from eight countries in the most representative economic sectors: finance, energy, and telecommunication services, as shown in Table 1. The companies included in our model apply International Financial Reporting Standards (IFRS) as a financial reporting standard and applied the European directive on nonfinancial information disclosure and reporting, specifically on ESG elements.

Since the level of disclosures related to the ESG elements can be perceived differently depending on the norms, rules, and culture in choosing the variables presented in Table 2, we took into account the fact that they must cover important issues under environmental, social, and governance aspects that need to be addressed by the companies. As listed in Table 2, the three evaluation variables of weights and 13 subvariables of this model are determined via the AHP.

The variables for this research considered the conceptual and operational definition that may be addressed from the perspective of the relationship between ESG disclosure, financial performance, and financial transparency. Furthermore, the rationale for using these variables is the relevancy of ESG disclosure practices adopted by the select companies that are being pressured by the stakeholders to provide positive financial performance results and to present transparent financial information.

Given this background and consistent with the stakeholder theory, we have taken into account in establishing the variables from Table 2 that an increase in the value of the ESG report, regarding provided information, will provide stakeholders with a real sense of usability of this report, by also providing assurance on the financial statements.

Table 1. The sample's descriptive characteristics.

Country	Economic Sector			Total
	Finance (FIN)	Energy (ENG)	Telecommunication Services (TEL)	
Denmark	8	2	2	12
France	10	4	2	16
Italy	11	2	2	15
Netherlands	5	3	2	10
Spain	6	2	1	9
Switzerland	14	1	1	16
Sweden	8	1	1	10
United Kingdom	40	11	4	55
Total	102	26	15	143

Table 2. Variables and subvariables for selecting the economic sector.

Variable	Subvariable	Description
ESG Disclosure	Availability	Dummy variable that takes a value of 1 if the firm filed its ESG Disclosure and 0 otherwise
	CSR Reporting Initiatives	Opportunities to increase the involvement of the organization in terms of nonfinancial performance
	ESG Communication-Oriented Score	The ESG score component from a functional point of view
	ESG Owner Score	The ESG score component from a stakeholder point of view
	ESG Strategic Score	The ESG score component from a management level point of view
Financial Performance	Return on Asset (ROA)	The ratio of pretax income to total assets
	Return on Equity (ROE)	The ratio of pretax income to equity
	Tobin's Q	The sum of the market capitalization of equity and total debt divided by total assets
	Financial Leverage	The ratio of total liabilities to total assets
	Tangibility	The share of long-term assets in the total assets
Financial Transparency	Public Confidence	The extent to which the public has a perception that results in a benefit for the organization
	Accruals	The difference between cash flow from operations and net income scaled by total assets
	Infrastructure Supporting Quality Auditing	The amounts firms invest in people, processes, and technology to support the base on which quality auditing depends.

4. Results and Discussion

As shown with the methodology presented above, we created a set of pairwise comparison matrices of indicators and sub-indicators for the impact of ESG on the financial transparency. To make comparisons for the decision elements of the different levels and summarize opinions, the geometric means of the weights were estimated. Furthermore, using Equations (2) and (3), the eigenvectors were calculated as shown in Table 3.

The results of the consistency test and CR of the comparison matrix are all smaller than "0.1", and the CR of the aggregate matrix is also smaller than "0.1", indicating "consistency" [88–92].

Table 3. Aggregate pairwise comparison matrix for the variables of Level 2.

	ESG Disclosure	Financial Performance	Financial Transparency
ESG Disclosure	1.000	0.561	1.145
Financial Performance	1.693	1.000	2.000
Financial Transparency	0.835	0.478	1.000
CR = 0.000, CI = 0.000, λ_{max} = 4.000			

Based on the processed data from Table 1 and according to Equation (3), the relative weights of the elements of each level were calculated by applying the eigenvector method. Furthermore, as presented in Table 4, to calculate the variable comparison matrix of consistency for each hierarchy and economic sector (finance—FIN, energy—ENG, telecommunication services—TEL), Equations (4) and (5) were used.

Table 4. Eigenvectors and weights of 3 variables and 13 subvariables.

Variable	Variable Weight	Subvariable	Weights of Subvariable	Overall Level Weight	Economic Sector		
					FIN	ENG	TEL
ESG Disclosure	0.211	Availability	0.096	0.005	0.347	0.477	0.109
		CSR Reporting Initiatives	0.124	0.012	0.36	0.129	0.445
		ESG Communication-Oriented Score	0.195	0.029	0.262	0.336	0.336
		ESG Owner Score	0.185	0.026	0.536	0.157	0.241
		ESG Strategic Score	0.289	0.05	0.307	0.248	0.38
Total Score					0.357	0.258	0.319
Financial Performance	0.374	Return on Asset (ROA)	0.218	0.073	0.305	0.391	0.238
		Return on Equity (ROE)	0.201	0.066	0.482	0.205	0.247
		Tobin's Q	0.183	0.059	0.525	0.126	0.283
		Financial Leverage	0.169	0.054	0.365	0.285	0.285
		Tangibility	0.119	0.034	0.426	0.174	0.334
Total Score					0.418	0.244	0.272
Financial Transparency	0.177	Public Confidence	0.370	0.057	0.365	0.285	0.285
		Accruals	0.181	0.018	0.285	0.365	0.285
		Infrastructure Supporting Quality Auditing	0.383	0.059	0.380	0.257	0.297
Total Score					0.354	0.279	0.290

According to Table 4, for the characteristics of the financial performance, the evaluation subvariables in order of importance recorded the following weight values: ROA (0.218), ROE (0.201), Tobin's Q (0.183), financial leverage (0.169), and tangibility (0.119). Regarding ESG disclosure, the register weight values are the ESG strategic score (0.289), ESG communication-oriented score (0.195), ESG owner score (0.185), Corporate Social Responsibility (CSR)-reporting initiatives (0.124), and availability (0.096). Equally important are the weight values recorded by the subvariables of financial transparency as well: the infrastructure-supporting quality auditing (0.383), public confidence (0.370), and accruals (0.181).

Finally, the alternatives are prioritized, and scores are assigned to the sectors of activity. The ranking according to the scores assigned to each sector of activity is as follows: financials (0.365), telecommunication services (0.290), and energy (0.279), confirming that the financial sector is the most appropriate for companies (Table 5).

As seen in Table 5, the principle of disclosure and transparency as a part of good corporate governance should be considered a crucial step in protecting stakeholders' interests and endorsing an effective and operational corporate setting within the economic environment. If all information (financial, sustainability, and environmental) is readily available for stakeholders, they can easily evaluate the company's management and the company's performance. In additional, our results confirm that ESG disclosure is an indispensable part of corporations and their stakeholders, for the

reason that it assures that the company's resources are protected and cannot be expropriated from the entity.

Table 5. Overall scores and ranking of three sectors of activity.

Variable	Variable Weight	Sectors of Activity		
		FIN	**ENG**	**TEL**
ESG Disclosure	0.211	0.357	0.258	0.319
Financial Performance	0.374	0.418	0.244	0.272
Financial Transparency	0.177	0.354	0.279	0.290
Total Score		0.365	0.279	0.290

Consistent with the results, we should underline that improving ESG disclosure performance should be among significant policy objectives to improve profitability and financial transparency. This is in accordance with previous studies [9,27,48,63,72], which point out that the effects of ESG disclosure on financial transparency must be determined, but financial performance is influenced by various factors, including the size, diversification, development, and market conditions of the company.

With regard to theory research, these findings restate the idea that companies should respond to the challenges of new approaches in which economic and financial performance is complemented by new valences: customer orientation, gaining emerging markets, digitalization, and aligning the existing economic sustainability business model, as also evidenced in prior literature [27,48,63]. Finally, our study offers a different point of view regarding the ESG scores and opinions as it offers only a valuation of the company's ESG attitude [98–100].

Possible future research might involve a qualitative analysis that examines how major stakeholders such as creditors, suppliers, and investment bankers incorporate ESG disclosure performance into their decision-making processes in different countries/sectors of activity or perform the analysis exclusively on ESG criteria or scores. Another direction of research could be the inclusion of real earnings management as an additional proxy for financial transparency by expanding the research sample, as this is rather common in empirical research on this topic [78–80]. In fact, earnings management research encompasses both accruals management and the manipulation of underlying real business activities [81].

5. Conclusions

Previous studies have highlighted that depending on the published context, the focus of ESG disclosure changes [101–103]. Consequently, the monitoring role of ESG disclosure has evolved into efficient and/or good corporate governance. Thus, corporate governance-related goals and company size have been found to affect the quality and content of the ESG disclosure of companies. On top of that, the way of doing business is changing very rapidly. Accordingly, ESG disclosure has become a tool for creating value for shareholders, creditors, and the managers of companies, which has been attracting more and more attention from researchers and practitioners.

This study strove to make a practical contribution for companies by providing a model for them to use to evaluate stakeholders' perceptions regarding the relationship between ESG disclosure and financial transparency. They can select the economic sector using a quantitative and objective method by applying this model to ESG category scores and financial or nonfinancial indicators.

From a business perspective, our findings also suggest that since higher ESG disclosure performance tends to increase ROA, we can conclude that different companies' management should place more weight on ESG activities. Considering this, and according to theoretical and empirical studies [17,20,61,63], the ESG disclosure used by companies is generally accepted as a framework and lends credibility to the financial published reports.

Given these considerations, we can say that the financial performance and transparency of an entity can be significantly influenced by the attitude that the entity has toward the principles of corporate governance. At the same time, the results show that achieving ESG disclosure should be a medium- and long-term concern of any organization, regardless of its size or the sector in which it operates.

As can be understood from the results of this research, the content and focus for ESG disclosures are different from one sector to another, and stakeholder need to be reflected in the financial performance reports and financial transparency. Still, the transposition into practice by economic entities of ESG disclosures is done through solid strategic commitments in the form of Sustainability Reports, based on solid materiality matrices and establishing objectives relevant both for the entity and for the industry in which it operates.

On top of that, this research approach allows us to demonstrate that a corporation cannot exist without its stakeholders, and it must therefore connect with its stakeholders, provide appropriate information, and address the needs of an extensive audience.

As a consequence, the results of this model come as a response to stakeholders' expressed needs and hope to fulfil this necessity. Other findings suggest that interested parties who have a higher level of financial education better understand the role of ESG disclosure in financial transparency and level of assurance it provides. However, certain stakeholders might not know the difference between absolute and reasonable assurance. This aspect is still debated in specialized studies [104–107].

Last but not least, the results of this research could be a basis for incorporating recommendations for policymakers and regulators. A first recommendation concerns decision makers, who should aim at minimizing the period between sustainability reporting cycles and the financial reporting cycles of the companies. Reducing this time lag can positively influence the ability to act on information about the ESG, financial performance, and financial transparency of companies.

The second recommendation addresses the need for legislative harmonization on nonfinancial information disclosure and reporting, specifically on ESG elements. This need also stems from legislative, stakeholder, and market pressures. In this sense, the ESG reporting reform along with the financial reporting standards reform started by the International Integrated Reporting Council plans on covering parts of the corporate sustainability expectation gap, with new and improved standards. In this situation, a number of countries such as Bulgaria, Croatia or Romania could benefit from analyzing the impact of environmental, social, and governance disclosure on financial transparency using the model presented in this study.

In terms of limitations, there are significant differences with respect to the ESG disclosure of the companies in accordance with different contexts and country classifications, and the structure and length of reports differed widely. Still, more qualitative techniques may be used to understand the reasons behind ESG disclosures in more depth. Likewise, companies' dedication to ESG disclosures is largely determined by the social context and focuses on different areas of reporting depending on their stakeholders. In addition, the study did not include companies in riskier sectors that use ESG disclosure as a way to show responsibility and have largely neglected environmental disclosure. Moreover, regarding economic performance indicators, the main figures from annual reports were mostly repeated in ESG disclosure by most companies despite the fact that these reports meet the minimum requirements. The final limitation was related to the lack of provided data regarding different components of corporate sustainability performance due to the temporal lag of disclosure at the level of the economic sector and at the international level.

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