Journal of Peace, Development and Communication

Volume 08, Issue 03, July-September 2024
pISSN: 2663-7898, eISSN: 2663-7901
Article DOI: https://doi.org/10.36968/JPDC-V08-I03-12
Homepage: https://pdfpk.net/pdf/
Email: se.jpdc@pdfpk.net

Article:	**Exploring the Nexus between ESG Disclosure and Financial Risk, Exploring how Transparent Reporting Shapes Perceptions of Risk and Influences the Decision-Making Process for Investors.**
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Published:	25th September 2024
Publisher Information:	Journal of Peace, Development and Communication (JPDC)
To Cite this Article:	Atif, H., & Alam, Q. (2024). Exploring the Nexus between ESG Disclosure and Financial Risk, Exploring how Transparent Reporting Shapes Perceptions of Risk and Influences the Decision-Making Process for Investors. *Journal of Peace, Development and Communication, 08*(03), 200–213. https://doi.org/10.36968/JPDC-V08-I03-12
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ABSTRACT

There is a growing trend in the corporate world to integrate Environmental, Social and Governance (ESG) criteria into the business practices of companies. His shift is driven by a growing awareness of the impacts of business practices on society and the environment, prompting companies to adopt more sustainable approaches. Research has shown that incorporating ESG criteria not only enhances financial performance but also fosters a balanced societal and economic environment (Rajesh & Rajendran, 2020). Still, what exactly is the impact of transparency surrounding ESG issues on financial risk, is still somewhat muddled and calls for more researches on how it changes how people make business decisions and how people invest (Liu, 2022). This literature review is constructed by gathering existing studies and research, then collectively analyzing them with the purpose of defining the factors under which ESG disclosure is likely to influence an organization's financial risks with a focus on the implications of transparency on investment decisions and corporate planning for sustainable development.

Keywords: ESG, Financial Risk, Decision making, Sustainability, Environmental, Social, and Governance, Corporate strategy, financial performance

1.0 Introduction

In the recent times, a shift has been seen in the contemporary world of business. In the modern era of awareness and mindful decision making there is emphasis on companies towards integrating Environmental, Social, and Governance (ESG) factors into their framework of corporate strategies. Rajesh and Rajendran (2020) have noticed how much attention this new strategy has gained particularly in the context of decision-making and strategy, especially as businesses strive to balance the effects on society and their own profit. When practicing sustainable development of business, the incorporation of ESG is seen as the best option because it ensures improved financial performance along with a social and financial balance in the society.

It has been seen that environmental transparency has played a very critical role in not only significantly improving business financial performance but also in establishing a positive relationship between financial performance and adaptation of ESG (Almeyda, 2019). Since this relationship impacts the decision-making process it has gotten a lot of awareness over time and is being greatly researched and studied, and evidently a positive correlation has been proven consistently. The complexity of this relationship extends to the role of environmental reporting. In particular, how companies reveal their ecological impact and footprint.

It is important for the companies as well as the investors to consider detailed and transparent analysis in their decision-making process to encourage the inclusion of sustainability in every corporate strategy. This is because these factors ultimately affect the calculation and perception of risk. If both, quantitative and primarily qualitative tools are used and analysis are carried out, the ESG risks can be calculated more precisely (Ziolo, 2019). Adding in a more calculated and mathematical approach to the ESG evaluations, a better understanding and an in-depth sophisticated comprehension of the social, economic and financial implications could be achieved. Quantitative analyses will ensure a high level of accuracy, exact facts and figured to understand the various levels of ESG transparency. It will enable the companies and investors to consider the long terms implications and financial factors related to the ESG risks

Even after such in depth analysis and research that point towards the positive implications of the relationship between the financial aspects and use of ESG, the exact effect of ESG transparency on financial risk remains unclear. A-lot of researches evidently argue in favor of ESG transparency, suggesting that it contributes to a significant reduction in financial risks (Liu, 2022), while the general consensus that suggested otherwise.

1.1 Background of Study

The current times show how much the corporate world has transformed in terms of how previously companies used to priorities profit and financial performances primarily, and most of their decisions if not all were based on how much they would gain however in the recent years, the corporate strategies have altered. The alteration in question is significant and it has reached new horizons as it considers a large number of aspects that were not previously considered. This broader spectrum of issues includes the social considerations, the environmental factors, sustainability, governance and state issues etc. This shift is given the name of Environmental, Social, and Governance (ESG) factors. The need for this shift has a-lot of reasons and has a-lot to do with the modern problems that these companies face. Companies now need to keep in mind contemporary issues such as the social problems, state

stability issues, international affairs, climate change and the corporate policies of government (Almeyda, 2019). The pressure that these companies face on a regular basis due to the stakeholders that includes employees, investors and consumers is increasing rapidly and steadily due to the growing awareness of the people in general in context of the adverse effects of old business practices.

1.2 Objective of the Literature Review

The primary objective of this literature review is to further explore the correlation between ESG disclosure and the financial risk in detail. Also, this review seeks to address the manner in which transparency in reporting enhances the investors' decision making on the financial risks of the firm. There are many other factors like investor behavior, quality of financial reporting and accounting, quality of audits and investor perception that directly or indirectly affect the revenues of a company which will be elaborated more in this research paper. Ethicality and sustainability are two rapidly growing areas in the whole world, and they directly affect ESG considerations. The literature review aims to explore the relationship between as well as how transparent reporting influences investors' perceptions of risk and decision-making (Bao, 2013).

1.3 Problem Statement

The relationship between the two, namely ESG disclosure and financial risks is multidimensional and very complicated. Chouaibi (2021) talks about the moderating effects of the social and ethical practices in this relationship, on the other hand Zioło (2019) talks about how quantitative considerations of the risk involvement in terms of finance is crucial along with the ethical and sustainable considerations. In addition, Almeyda (2019) talks about the benefits and the positive correlation between disclosure quality and investor perceptions, financial reporting accuracy, and audit quality. They also discuss how ESG transparency can contribute greatly to corporate financial performance and improve it ultimately. Even with all of this research and data available, the precision is still not enough and it requires further study.

1.4 Research Objectives

- In which areas does ESG reporting, in its most transparent form, and as noted by Liu (2022), help to mitigate the financial suffering of non-state enterprises? What other factors or practices within ESG reporting are particulate aimed at lowering financial risk in this case?
- Moreover, according to Almeyda (2019), there is positive correlation between ESG disclosure and the financial performance of any firm in terms of asset returns and capital returns. Therefore, what are the key factors or widgets of ESG disclosure that enhance the financial performance of the company? How do these suspense indicators help investors in regards to risk and investment decisions?

2. Methodology

The methodology that was adopted to evaluate the relation between financial risk and Environmental, Social, and Governance (ESG) was very meticulous and detailed. In addition to exploring the relationship between financial risk and Environmental, Social, and Governance (ESG) the impact of transparent and sustainable reporting on the decision making and rusk calculation of investors was also discussed.

Several key aspects that this methodology covers includes the development of inclusion and exclusion criteria, the search strategy, the selection process, data extraction, quality evaluation, and the process of synthesizing the data.

2.2 Inclusion and Exclusion Criteria

The systematic literature review includes only the articles that are based on the following

2.2.1 Search Strategy

Specifically, the following broad search strategy was employed; the search was conducted through Scopus databases and journals, similar web-sites, and other reliable sources focused on finance, sustainability, and corporate governance. Keywords such as ‘ESG’, ‘Financial risk’, ‘Risk governance’ and ‘Environmental, Social and Corporate governance’ were selected to identify papers that may elaborate the different roles of ESG disclosure and its effect of transparent reporting.

2.2.2 Selection Process

The first database search gave 265 papers with a subject of ESG disclosure and financial risk. Of them, 65 articles were found to include all the words related to the methodological focus of the study. However, because of the issues of access and compatibility with the content of the papers, only 24 papers were analyzed in detail. The selection was carried out in a standardised form, with reference to inclusion and exclusion criteria prepared in advance. The first step was a title and abstract review to select articles most relevant to the study’s goals. Next, the full texts of the potentially relevant articles were reviewed systematically. This approach helped filter out the final list of studies that contain useful information on the certain aspects of the relationship between ESG disclosures and investigated financial risk. It was essential to choose only relevant articles to the topic since the quality of data very much depends on the quality of the articles reviewed this eligibility criterion helped to screen out the highly relevant, rigorous, and valuable papers, thus determining the specifics of the association between ESG disclosure and financial risk.

2.2.3 Data Extraction

An approach based on structure was followed to extract appropriate data from chosen studies. Information derived from objectives, methods, participants/samples, findings/ results and conclusions as well as the concept of reporting was systematically isolated. This process prepared data for analysis and synthesis using concepts for classification.

2.2.4 Data Synthesis

To make proper conclusions about how ESG disclosure relates to financial risk, all synthesized data from the chosen studies were analyzed methodically. This synthesis process entailed developing themes and patterns common to the studies to gain an appreciation of how transparency reporting influences risk perception and investors’ decisions in ESG disclosures context.

3. Conceptual framework

ESG disclosure and financial risk in the convivial business environment is a very sensitive area that requires formulation of a firm model for understanding this relationship. ESG disclosure is a well-known and general requirement of business ethics that stems from the reporting by corporations on their activities concerning environment, social environment, and governance. Experts point out that this disclosure must be not only accurate, but also thorough,

which means that the company should adhere to GRI and SASB. These methods are the signs of full standardization of the ESG reporting and the searching for the material risk, so the results are accurate and it makes easier the company's risk assessment. The more organisations and investors start considering ESG factors as actual business risks and opportunities, the more important becomes the need for sound conceptual underpinning to address the changing nature of sustainability and its impacts on the firm and its financialreports. (Cambien Leroy & Omez, 2022).

Further categorisation of ESG reporting occurs at this stage where the first category is environmental. This is reflected in the assessment of the interactions with the eco-systems, the institution's stance on climate change in general and the contained proportion of operations' resource. These consideration on the other hand appraise the nature of its relation with the employees, the local communities, and the social impacts of its operations. Finally, the governance factors are more focused to the internal working of the company including its structures, the way it makes its decision, and its corporate and business ethics. This three-dimensional scheme and checklist posited enable the stakeholders to assess holistically as well as more specifically the firm's ESG performance and its commitment, thus establishing a comprehensive picture corresponding to a wider approach to the overall ESG picture. (Saini et al 2022).

In his very relevant piece of work, Habib (2023) establishes how and why ESG disclosure can offer strategic management of financial risks. The author argues that firms do not have to be passive and wait for adverse events to occur, instead, they act proactively and reduce exposure to a range of financial risks including potential fines, brand erosion, and disruptions. ESG disclosure proactively as a protection against challenges that result from failure to conform to appropriate standards or negligence on issues of environmental influence and social accountability. In addition, the paper provides focus on the necessity of high standards in corporate governance to boost organizational capacities to manage adaptable market environments and complex regulatory systems.

In the research done by Antolín-López and Ortiz-de-Mandojana (2023), the challenge of measuring the effect of ESG disclosure on credit risk is recognized. The authors begin with the important notion of materiality – the idea that some ESG factors might be more or less important depending on the industry in question. This evidence supports their premise that a universal approach to making ESG disclosures is relatively efficient if it is done to solve material issues that are specific to a given sector. When they understand the behavioral nature of these sectors, companies can improve on their risk management measures. This approach not only links ESG disclosure to the different industry characteristics but also makes it simpler and more effective to engage stakeholders. In this regard, Antolín-López and Ortiz-de-Mandojana call for a more conservative and industry-tailored approach where ESG disclosure that targets material concerns linked to every sector may lead to a less threatened strategy to tackle the financial risk. Therefore, this section provides a systematic and coherent theoretical foundation for the concept of ESG disclosure and its interaction with financial risk. First, it is important to identify the many-sidedness of both, ESG disclosure, and financial risk with reference to the following analysis, to reveal the intricate processes which define relationship between sustainable management of business and its financial viability.

4. Thematic Analysis

4.1.1. The impact of ESG disclosure on financial risk management

ESG disclosure and financial risk management have been explored in several papers with some disquieting views expressed on how clear ESG reporting practices enhance organizational stability and decision-making processes. By doing so, the study by Darnall, Iwata, and Arimura (2022) contributes to, among other things, a further understanding of the how the ESG disclosure is used in the organisation and where special emphasis is put on the task of the ESG disclosure to identify potential risk. Researchers claim that through the disclosure of a system of environmental, social, and corporate governance, firms fortify their abilities to comprehend and predict new risks within the area they operate. Companies communicate through ESG metrics due to which they can not only manage risks but at the same time able to see the outcomes that could be positive or negative through the different conditions.

In their exceptional study, Cort & Esty (2020) emphasize that detailed ESG reporting is instrumental to the evaluation of financial risk comprehensively. The authors argue that transparency in reporting the ESG factors has not only gone beyond compliance, but it is a strong tool and a way through which clients can be better placed to assess the company's impact of the externality. As opposed to simplified reporting on ESG issues, extensive ESG reports allow analysing the extent to which such factors can influence a company's financial results. This in turn leads to an enhanced understanding and a better decision making process to investor, regulators and other stakeholders. Cort and Esty describe what they call ESG integrated reporting as an effective way of going beyond using it only as a compliance tool, but presenting it as a necessary and useful tool for companies who would like to protect their positions by changing impacts on financial risks. In so doing, the authors help to enhance the current body of knowledge on the process through which ESG disclosures facilitate organisational evaluation of financial risks, and the critical role that such reporting plays in the transition to more sustainable and responsible forms of business. Following the guidelines of the article where the author named Josephine (2022), emphasis was made on the presentation of the regulatory aspect more carefully on the ESG disclosure. The author argues that this process is informed by recognition of internationally acceptable reporting standards within the organisation. Josephine also provides a ground on how such compliance does not only contribute to the perpetration of a general approach towards standard and general reporting of ESG issues but at the same time help greatly to improve the company's operations on both the environmental and social legal requirements across the world. This is true because when ESG reporting is in line with the universally recognized formats, investors are well assured of emulating responsible business practices as well as sustainable investments. This in return act as a form of risk management in advance to avert any legal and financial losses that may result from endless court cases. My analysis of Josephine's work has also brought a confirmation of a positive correlation between ESG disclosure and regulating compliance not only as a defensive wall for firms but also as an instrumental guide to reporting in accommodating different regulatory environments. The rationale and reasoning provided by the author supports the idea that I have been arguing for some time now – that ESG disclosure doesn't just make sense as an optional extra, but as a necessary part of the corporate toolkit for businesses as they strive to plot their way through the emerging age of greater and greater regulation, not to mention the much-needed push for more sustainable forms of business.

In Luo and Tang (2023), the authors investigate the importance of GRI as an integrated approach to ESG reporting. The authors cite this to mean that, while the GRI framework focuses on disclosing ESG metrics, the system also incorporates these ESG elements into the company's organisational and strategic plan. This integrated approach is presented as a move toward developing more comprehensive platform for risk management. The GRI framework promotes better ESG considerations because it links ESG with the corporation's general objectives and ways of managing risks and opportunities. This approach enables organisations to extend the processes of compliance and disclosure and incorporate ESG factors into the bones of a business. This way necessitates that ESG factors are not passive but integral to decision making processes hence leading to enhanced sustainable and responsible organisation culture. What Luo and Tang have demonstrated is the fact that to successfully manage risks, organizations also have to ensure that ESG factors are properly incorporated into the central corporate strategy. Adopting the GRI framework makes it easier for the companies to improve their abilities to develop the necessary tools to identify risks on their own, which shall go a long way to ensuring that the companies are better placed in the event of change in the business environment. Basically, the GRI framework is useful tools for companies that intend to advance from following legal requirements to integrating ESG disclosures and management into their corporate strategies.

To add to the discourse on ESG (Environmental, Social, and Governance), Rook and Monk (2021) go deeper exploring how these factors could be integrated in strategy as risks. Based on the literature, the authors emphasize that one of the main strategies essential for managing risks is the proactive integration of ESG factors into organizational-risk management frameworks and systems. It is suggested that this integration is strategic, allowing companies to respond adequately to new risks as soon as they appear in order to develop stability against constantly evolving threats. ESG factors should be managed as separate risks which allows to have a broader understanding of the organization's risks in connection with ESG issues as well as to reveal opportunities for its development that are connected with ESG factors. Rook and Monk recommend for a more proactive approach that approach ESG consideration in a which they are not discussed in isolation but are an integral system with the organizational system. These, in turn, can enable a quick understanding of emerging risks before they develop into bigger issues and therefore result into better ability to adapt in the ever changing business environment. Finally, in this section, the author brings out how ESG disclosure is a tool that is used in various ways in risk management of financial organizations. With regards to risk identification all the way up to the strategic incorporation of reporting into management decision making, it is clear from the literature that reporting plays a central role in organisational reporting and risk mitigation.

4.1.2. Investor perceptions and decision-making

In the recent development of debates concerning Environmental, Social, and Governance (ESG) reporting, Lavin and Montecinos-Pearce 2021 pay a particular attention to the appropriate investor's role in financial markets. Their study explores the traditional influence of transparent ESG disclosures directly on player decision-making and proves that investors consider ESG aspects as inestimable predictors of the company's future sustainability and robustness. The work indicates that high ESG performance correlates with positive investor attitude to ESG posting it as an example of how investors have come to consider ESG factors

in their valuation process. With the progressive prevalence of ESG disclosure, this research also captures its practical impact on setting investors' expectations and further emphasizes the role of sustainable and responsible business practice in the view of the financial society.

In their 2021 study, Olsen, Awuah-Offei and Bumblauskas provide a thorough investigation of the market responses to Environmental, Social, Governance (ESG) disclosure and hence making an understanding into how and why investor responses matter in the financial markets. The researchers provide very interesting findings, proving that organisations with strong ESG orientation have above-average stock performance. Interestingly, this study confirms the potential of sustainability initiatives and reporting on investor opinion and company valuation. This analysis points out that it is not only acknowledged by investors the importance of ESG factors but also appreciated in the form of premium for businesses implementing proper sustainable policies. Olsen, Awuah-Offei & Bumblauskas also advance the research on the relationship between ESG disclosure and both company sustainability and stock reactions where they show that ESD can impact firms both positively for sustainability and positively in their market reactions. The findings therefore stress on the need to adopting ESG factors on the market and decision-making process in investors' decisions.

As pointed by Olatubosun (2020) in his/her research, the subject of analysis is the investor activism and the way it influences the firms' disclosure of the ESG information . The research study presents an interesting picture whereby it reveals a mutual interaction; the pressure brought by the investors obligates the corporations to engage in enhanced and extensiveness disclosure practices. Olatubosun's study shows how investor activism has changed firms, thus supporting that firms heed demands for higher levels of ESG reporting when investors pay more attention to their activities. The study establishes that investors hold the ability to increase transparency in reporting by using activism to influence change in companies' sustainability decisions. As investors employ their powers to force organizations to change their behavior for the better, Olatubosun provides first-hand observation regarding the shift in power dynamics that marks investor activism and its interaction with ESG reporting in the determination of corporate sustainability.

Jo, Harjoto, and Garen (2019) contributed by examining the link between ESG disclosure and investor trust. According to their study, firms providing clear and reliable ESG information are better placed to access investors' confidence. Of which trust, on its part, impacts investment decisions given that investors are likely to invest in firms who have at least a semblance of ESG compliance. Velte and Stawinoga, (2016) continued exploring the ESG decisions and investor perceptions in relation to the broader context of stakeholders' effects. Based on their study, they propose that organisations communicating ESG disclosures in response to other stakeholders' expectations are capable of shaping investor perceptions in terms of responsibility and sustainability. Thus, the investor's approach to the ESG disclosure can be presented as complex and combined with the elements such as market responses, investor pressure, reliance on trust, and the impact of stakeholders. Literature review shows the increasing role of ESG factors in investors' decisions and reveals the criticality of the reporting system as a tool to trust in investing activity.

4.1.3. ESG as Determinant to Investor's Interest and Financial Outcomes

Lucia, Pazienza and Bartlett (2020) showed that there was improving awareness on climatic changes and human capital issues, with the rise in financial management earnings

observed with change. This has observed due to issue of global perspective and raised up with the importance of the ESG with attention of investors to consider this aspect also in their investment decision and considering it as decisional factor to mitigate possible risk to their investments. Furthermore, environmental innovation, employment productivity and diversity also found with positive input in bringing up positive outcomes on ESG based initiative and consolidating investor's attention to come up with positive impact on the financial returns.

Buallay et al (2020) also investigated the role of the ESG disclosure in financial sector with its financial impact. The study identified its positive outcomes among banking firms considering data of a decade. It has also been observed during the study that ESG positively determines investor's retention and its impact on firm's valuation and financial performance. Furthermore, Islamic banks observed with the special treatment of the ESG in their policies to bring up with ethical financial and bring up a sympathy among investors to ensure funds availability for the banks and ensure growth trajectory of the banking firms.

Boulhaga, Elbardan and Elmassri (2023) examined the influence of the internal control with its role in determination of impact of the ESG on conditional accounting conservatism. The study clearly revealed that internal controls are based on some pre-defined objectives and CSR has contributed positively in building up with the productive controls to bring up with the influence of stakeholder's pressure on ensure proper social responsible reporting and translate its impact on the firm's financial performance following conditional accounting conservatism practices. The study also revealed that with the passage of time social dimensions have been gaining prominence in corporate reporting to bring up with the protection to the stakeholders and conservation of interest and adoption of conservatism accounting approach. The study also explored the dimensions of investor's interest toward the reporting practices of the firms to bring up with rational approach with an emphasis on ESG aspect with growing awareness of investors.

Bigelli, Mengoli and Sandri (2023) also reported the emphasis on the non-financial reporting directives with consideration of investor's and regulatory concerns to bring up with more transparent reporting along with its proper disclosure. This has clearly opened the dimension for the researchers to make explicit the impact on the financial earnings. The study empirically revealed that there is significant impact of the CSR committee along with the other corporate factors in determination of ESG score. Furthermore, investors are observed with the weightage of the ESG score in determination of the investment decision that ultimately determines its role in defintion of the firm's financial performance. Furthermore, the study also revealed that there is comparatively significant difference in financial reporting and earnings of the firm following with the ESG scoring or not. Singhania, Bhan and Chadha (2023) explained the concept of the sustainable investment having attributes like promising class of investment, combining financial return with the mitigation of the environmental challenges and found more attractive for the investors and interesting to come up with the interest in their investment decision. An increased global focus has found with the significant role and regulatory concerns in determination of working toward this area with its role in directing the investor's behavior this has resulted in investment movements along with the attention of the fund managers to consider this also in attracting the investors' attention toward particular stocks. This has observed with the development of the ESG based portfolio among investors with its role in determination of the firm's financial performance also.

5. DISCUSSION

This review provides a platform for future research and exploration into the nuances of the ESG-disclosure and financial risk nexus, serving as an authoritative compilation of existing information for scholars. The intricate knowledge of this connection provides opportunities for researchers to focus on certain areas, advancing the body of knowledge on corporate governance and sustainable finance. The results of this assessment can be used by policymakers to guide the creation of regulatory frameworks that support open reporting on environmental, social, and governance aspects. The established connection between financial results and ESG disclosure highlights how crucial it is to foster an atmosphere that motivates companies to incorporate sustainability concerns into their primary business plans. With the increasing emphasis on corporate responsibility in global initiatives, this analysis offers policymakers a solid knowledge base to help them draft policies that support a robust and sustainable business ecosystem.

5.1 CONCLUSION

In collating the aforementioned studies, this particular literature review has ensured that the relationship between ESG reporting and the financial dimension has been well garnered. This aspect has been developed further and provides an insight into the more complex relationships that exist where environmental, social and governance factors interact with business performance. This review of literature has important implications in the current debate on the subject of appropriate conduct of business. This synthesis improves our understanding of how ESG disclosure creates, preserves, or destroys financial risk, thus contributing to the body of knowledge that is beneficial to scholars, practitioners, and even policymakers. There are wider implications to the investments and other activities of organizations in quest of ESG reporting compliance other than performance, connecting the perception of risk and such marketing activities.

5.2 Recommendations & Future Research

Hansen et al. (2019) put forward a research agenda looking into the possibility of incorporating ESG factors into the finance model building. Exploration of these principles and underline how such factors can be effectively applied in risk management and pricing strategies. Such an analysis will allow for a detailed understanding of how the ESG disclosure interacts with the most common measurement of economic risk – the financial risk itself. Ioannou and Serafeim (2012) observed that the “ESG factors are not static and always remain within the context of the company”. Hence the effect on ESG, can be studied in relation to the time factor. Marquis et al. (2016) suggested one to cross-border among the industries. The results of this study may shed light on the reasons for different trends in various branches, since in most cases the changes in the financial risk depend on the extent of ESG information disclosure in a particular industry. Serafeim and Yoon (2018) argued that it is necessary to analyze and investigate the perceptions of the stakeholders regarding ESG disclosure.

Stakeholders such as employees and customers or local community pay attention to the ESG disclosure in some way and have various responses to it. Thus, it is going to provide a better understanding of the concept of transparency and its association with financial risk management practices. These avenues of exploration will contribute to a more nuanced and comprehensive understanding of the intricate relationship between ESG disclosure and financial risk.

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