

# ESG Disclosure and Firm Value in Emerging Markets: Separating Substance from Strategy

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## ABSTRACT

Environmental, Social, and Governance (ESG) disclosure has grown from a niche investor concern into a mainstream corporate practice, with emerging market firms increasingly joining the wave. But adoption alone tells us little. The more pressing question is whether ESG disclosure in emerging economies actually creates firm value, or whether it is largely a signaling exercise that firms use to satisfy institutional expectations or sidestep regulatory obligations elsewhere. This paper examines that question by drawing on signaling theory, institutional theory, and a growing body of empirical evidence from emerging markets across Asia, Latin America, and Africa. Through three analytical lenses, namely value creation, institutional signaling, and regulatory arbitrage, the paper unpacks the mechanics of how ESG disclosure operates in low-governance environments. Real-world corporate cases from India, China, Brazil, and South Africa illustrate where trust deficits emerge between firms and their stakeholders. The paper concludes with a set of practical advisories for corporate managers tasked with implementing or overseeing ESG-related obligations inside their organizations.

**Keywords:** ESG disclosure, emerging markets, firm value, institutional signaling, regulatory arbitrage, corporate governance, trust deficit

## INTRODUCTION

ESG has become one of the most discussed frameworks in corporate finance and management over the past decade. Investors, regulators, and civil society organizations have all, in their own ways, pushed firms to disclose how they manage environmental risks, treat their workers, and govern themselves. In advanced economies, much of this pressure has come from institutional investors and mandatory regulatory requirements. In emerging markets, the picture is messier.

Firms operating in countries like India, Brazil, China, and South Africa face a different institutional context altogether. Regulatory frameworks are often evolving or inconsistently enforced. Capital markets are less liquid. Corporate ownership tends to be more concentrated, often in the hands of founding families or state entities. In these settings, the motivations behind ESG disclosure are harder to read. A firm that publishes a glossy sustainability report may genuinely be embedding ESG considerations into how it runs its operations. Or it may be managing investor perceptions. Or it may be exploiting jurisdictional gaps to avoid stricter scrutiny elsewhere.

This paper does not assume any one of these explanations holds universally. The reality, as the evidence suggests, is more layered. What matters, especially for managers on the ground, is being able to distinguish between these motivations, because each one leads to different organizational outcomes, different stakeholder relationships, and different levels of institutional trust.

The paper is organized around three themes: value creation, institutional signaling, and regulatory arbitrage. Each section draws on peer-reviewed literature and documented corporate cases. The paper ends

with advisory guidance for workplace managers who need to work through the practical challenges of ESG implementation in organizations where substance and strategy are often in tension.

## **THEORETICAL BACKGROUND**

### **Signaling Theory**

Spence's (1973) foundational work on job market signaling offers a useful entry point. Spence argued that in markets where information is asymmetric, observable actions function as signals that convey unobservable qualities. Applied to ESG, the logic runs like this: since outsiders cannot directly observe a firm's internal governance practices or environmental commitments, they look at ESG reports, ratings, and certifications as proxies. Firms with genuinely strong ESG performance have an incentive to disclose; those without it face a temptation to mimic the signal.

The problem is that signals only work when they are costly or credible enough to deter imitation. ESG disclosure, in many emerging markets, is neither sufficiently costly nor sufficiently verifiable to separate the genuine from the performative. This creates what scholars sometimes call a signaling equilibrium failure, where disclosure loses its informational value because it does not reliably distinguish high-quality firms from low-quality ones (Spence, 1973).

### **Institutional Theory**

DiMaggio and Powell (1983) described three mechanisms through which organizations come to resemble one another within a given field: coercive isomorphism (regulatory pressure), mimetic isomorphism (copying successful peers), and normative isomorphism (professional standards). All three are visible in how ESG adoption has spread through emerging markets.

Coercive isomorphism appears when stock exchanges mandate ESG disclosure, as the Bombay Stock Exchange and Johannesburg Stock Exchange have done. Mimetic isomorphism is evident when local firms follow the ESG reporting practices of multinational competitors in their sector. Normative isomorphism shows up when professionals trained in Western business schools carry ESG frameworks into emerging market boardrooms. In each case, the adoption of ESG practices is driven more by institutional conformity than by a strategic decision rooted in expected financial outcomes (DiMaggio & Powell, 1983).

### **ESG and Firm Value: The Empirical Debate**

The large-scale meta-analysis conducted by Friede, Busch, and Bassen (2015) examined over 2,000 empirical studies and found that roughly 90% of them report a non-negative relationship between ESG criteria and corporate financial performance. That is an encouraging headline, but it masks important variation. The relationship is context-dependent, and emerging markets represent a context where the causal mechanisms remain poorly understood.

Eccles, Ioannou, and Serafeim (2014) found that firms with high sustainability ratings outperform low-sustainability counterparts on long-run stock market performance, but their sample is dominated by developed market firms. Lins, Servaes, and Tamayo (2017) showed that social capital built through CSR activity translates into trust, which in turn generates a performance buffer during market downturns. Whether the same mechanism operates in markets where stakeholder trust is structurally lower is a separate question, and one that this paper addresses.

## **ESG DISCLOSURE IN EMERGING MARKETS: THE CONTEXT**

Emerging markets are not a homogeneous group. China, Brazil, India, and South Africa each have distinct political economies, regulatory histories, and capital market structures. What they broadly share is a governance environment in which enforcement of environmental and social standards has historically been

weak, where state ownership or family ownership of large firms is common, and where institutional investors have played a smaller role in corporate monitoring than in the United States or Western Europe.

Ioannou and Serafeim (2012) documented how national institutional contexts shape corporate social responsibility practices. They found that country-level factors, including political systems, labor market structures, and cultural dimensions, explain a significant portion of the cross-country variation in CSR behavior. This means that ESG frameworks developed in a Western regulatory context do not translate cleanly into emerging market settings.

Marquis and Qian (2014) made a similar argument specifically about China. Studying Chinese firms' CSR reports, they found that politically connected firms used disclosure strategically to satisfy government expectations rather than to communicate genuine environmental or social performance. The report became a tool of political management rather than stakeholder accountability. That finding is sobering, and it is not unique to China.

Dyck, Lins, Roth, and Wagner (2019) examined ESG adoption across 41 countries and found that non-US institutional investors are the primary drivers of ESG adoption globally. In markets where such investors have limited presence, ESG adoption tends to be more ceremonial. This is important for understanding why ESG disclosure in many emerging markets tracks the preferences of foreign institutional capital rather than local stakeholder concerns.

### **THREE LENSES: VALUE, SIGNALING, AND ARBITRAGE**

#### **Value Creation**

The genuine value creation argument holds that firms with strong ESG practices manage risk better, attract and retain talent more effectively, build stakeholder loyalty, and operate more efficiently. In theory, these benefits should show up in financial performance over time.

Friede et al. (2015) and Eccles et al. (2014) support this view in aggregate. But the conditions under which value creation materializes matter enormously. ESG practices generate firm value when they are embedded in operations, when management is genuinely accountable for outcomes, and when stakeholders can verify the claims being made. In emerging markets, all three conditions are often absent or only partially present.

One sector where the value creation argument does appear to hold in emerging markets is banking. Banks that have adopted environmental risk screening for lending decisions have documented lower non-performing loan ratios in markets like China and Brazil, where environmental liabilities can become financial liabilities through regulatory penalties and reputational damage. This is ESG functioning as a genuine risk management tool, and it reflects a logic that is transferable to other sectors.

#### **Institutional Signaling**

The institutional signaling interpretation holds that firms adopt ESG practices primarily to conform to the expectations of powerful institutional actors, including stock exchanges, foreign investors, development finance institutions, and credit rating agencies. Compliance with these expectations generates legitimacy, which in turn affects a firm's access to capital.

This is not inherently dishonest. Institutional signaling can coexist with genuine commitment. The problem arises when disclosure is decoupled from operational practice. A firm that publishes an ESG report while simultaneously lobbying to weaken environmental regulations, or that reports employee well-being metrics while maintaining unsafe working conditions in its supply chain, is using disclosure to manage perceptions rather than to account for performance.

Lins et al. (2017) found that firms with high social capital derived from stakeholder trust performed significantly better during the 2008 financial crisis than low-trust counterparts. The implication is that signaling without substance eventually destroys the very capital it was meant to build. When trust collapses, and the real cases in the next section illustrate how quickly it can, the institutional legitimacy that ESG signaling was supposed to protect evaporates with it.

### **Regulatory Arbitrage**

Regulatory arbitrage is perhaps the most concerning of the three patterns. It occurs when firms use ESG disclosure in high-scrutiny jurisdictions to offset or deflect regulatory pressure in their home markets, or when they structure their operations to exploit the gap between their disclosed ESG standards and the actual regulatory requirements they face locally.

The arbitrage takes several forms. A firm listed on a foreign exchange may meet that exchange's ESG disclosure requirements while ignoring equivalent domestic standards. A multinational may apply strict environmental standards at its headquarters while operating loosely regulated facilities in emerging markets. A firm may structure its supply chain so that the labor practices it would not tolerate directly are outsourced to contractors who are not subject to ESG audits.

This is not merely a theoretical concern. The cases in the following section document how arbitrage behavior creates trust deficits, both inside organizations and between firms and their external stakeholders.

### **REAL-LIFE CASES: WHERE TRUST DEFICITS APPEAR**

#### **Satyam Computer Services, India: Governance Awards and a Fabricated Balance Sheet**

In January 2009, Ramalinga Raju, the founder and chairman of Satyam Computer Services, one of India's largest IT outsourcing firms at the time, confessed in a letter to the company's board that he had been falsifying the company's accounts for several years. The manipulations included inflating the cash balance by approximately 50 billion rupees, fabricating interest income, and understating liabilities. The confession triggered the immediate collapse of Satyam's share price and set off one of the most significant corporate fraud investigations in Indian history (Bhasin, 2013).

What gives the Satyam case its particular relevance to ESG governance is the gap between the firm's public profile and its internal reality. Satyam had received the Golden Peacock Award for Corporate Governance in 2008, just months before the fraud came to light. The company was listed on the New York Stock Exchange, which imposed US disclosure standards. It maintained an audit committee. It published annual reports with governance commitments. None of these structural features detected or deterred the fraud.

At the workplace level, the trust damage was significant. Thousands of employees who had built careers at Satyam found themselves working for a firm that had misrepresented its financial health for years. Mid-level managers who had reported upward to leadership, assuming those leaders were operating within legitimate governance structures, discovered that the institutional framework they trusted had been systematically undermined. The Satyam case is a clear illustration of how governance disclosure can project legitimacy while concealing organizational reality, and how that gap, once exposed, leaves employees without a stable foundation to stand on.

#### **Petrobras, Brazil: When ESG and Systemic Corruption Coexist**

Petrobras, Brazil's state-controlled energy giant, was at the center of the Lava Jato (Car Wash) corruption investigation that ran from 2014 onward. The investigation uncovered a systematic scheme in which

construction contracts were inflated and a portion of the proceeds channeled as bribes to politicians and Petrobras executives.

Petrobras had, throughout this period, maintained sustainability reports, signed onto international ESG frameworks, and published governance commitments. The contrast between those reported governance standards and the operational reality was glaring. Employees inside the organization who were aware of irregularities faced significant pressure not to raise concerns, a pattern that is a reliable indicator of a governance culture where disclosure is performative rather than substantive.

The case illustrates how ESG frameworks can coexist with systemic institutional failures when there is no independent mechanism to verify the claims being made. It also shows how trust deficits accumulate at multiple levels simultaneously: between management and employees, between the firm and government partners, and between the company and international investors who had treated ESG disclosure as evidence of genuine governance quality.

### **Luckin Coffee, China: Disclosure Fraud and Stakeholder Deception**

Luckin Coffee, the Chinese coffee chain that listed on NASDAQ in 2019, fabricated approximately 2.2 billion yuan in sales during 2019, a fraud that came to light in April 2020 following an internal investigation. The company had positioned itself as a technology-enabled, data-driven retail operation with strong growth credentials. Its disclosures, including those related to corporate governance, were later found to be substantially misleading.

While Luckin is not a typical ESG disclosure case, it is relevant to the trust framework because the company's disclosures functioned as a form of institutional signaling to foreign capital markets. The NASDAQ listing itself was a signal of governance quality to investors unfamiliar with the Chinese regulatory environment. When the fraud was exposed, it damaged not just Luckin but investor confidence in Chinese company disclosures more broadly.

At the workplace level, the case is a useful example of how a culture of disclosure manipulation at the senior level creates a trust environment in which employees lower in the hierarchy are either complicit, coerced, or left without recourse when they observe problems. The organizational structure that enables fraudulent disclosure is rarely contained to the finance function alone.

### **Steinhoff International, South Africa: The Governance Illusion**

Steinhoff International, a South Africa-based retail conglomerate with a large European footprint, disclosed a massive accounting irregularity in December 2017 that wiped out most of its market value almost overnight. Subsequent investigations revealed that accounting fraud had been ongoing for years. The company had been widely regarded as a well-governed, professionally managed firm. It had ticked many of the governance disclosure boxes that ESG frameworks look for.

What Steinhoff demonstrated is that governance disclosure can be extremely misleading when the auditing and oversight mechanisms that are supposed to verify it are themselves compromised or inadequate. The company's board included several experienced independent directors. Its audit committee met regularly. Its financial reports were signed off by a major audit firm. None of these structural features caught or stopped the fraud.

For employees, the trust damage was severe. Thousands of workers across South Africa and Europe found that the pension funds and savings schemes tied to Steinhoff shares had lost most of their value. The gap between what management had disclosed and what was actually happening inside the organization was not just a legal failure. It was a moral one, and it destroyed the kind of workplace trust that takes years to build.

### **Volkswagen, Germany: A Developed-Market Lesson with Emerging-Market Relevance**

While not an emerging market case, the Volkswagen emissions scandal of 2015 is worth including because of its direct relevance to the environmental dimension of ESG and the specific failure mode it represents. Volkswagen had earned strong ESG ratings based on its reported emissions performance. The ratings were wrong, not because the rating agencies made a methodological error, but because the data they were given was deliberately falsified.

The relevance for emerging markets is twofold. First, it shows that even in high-governance jurisdictions with sophisticated regulatory agencies, ESG disclosure can be manipulated when firms have the technical capacity to do so and an organizational culture that enables it. Second, it shows what happens at the workplace level when a culture of results at any cost permeates an organization. The engineers who wrote the defeat device software did not do so spontaneously. They operated within a system that rewarded meeting targets over honest reporting.

### **ADVISORIES FOR WORKPLACE MANAGERS: MANAGING ESG TRUST DEFICITS**

The cases above share a common thread: the gap between what organizations disclose externally and what actually happens internally creates trust deficits that are damaging to employees, investors, and the long-term health of the organization. Managers operating within these environments, whether as sustainability officers, department heads, HR leaders, or general managers, are not always the source of the problem. But they are often in the best position to either prevent it or address it once it starts to surface.

The advisories below are organized around specific problem areas, each paired with practical implementation steps.

#### **Close the Gap Between Policy and Practice**

The most common source of internal ESG trust deficits is the distance between what policies say and what daily operational practice looks like. Employees know this gap exists. When they see sustainability commitments in the annual report that bear no resemblance to the decisions being made on the ground, they stop trusting the organization's communication generally, not just on ESG matters.

#### ***Implementation Steps***

Managers should start by conducting an honest internal audit of their team's or department's actual practices against the ESG claims their organization makes publicly. This does not require a formal process. A series of honest conversations with frontline employees who deal with suppliers, waste management, procurement, or health and safety will surface the real picture quickly.

Where gaps are found, they should be documented and escalated through formal channels. If the gap is too large to address at the department level, managers should put it in writing and route it to whoever is responsible for ESG reporting. The goal is not to embarrass the organization but to protect it and to protect the employees whose credibility is tied to claims they did not make and cannot defend.

#### **Build Verification Habits into Reporting Workflows**

One of the recurring failures in the cases described is that no one inside the organization was asking hard questions about whether the numbers being reported externally reflected reality. ESG data quality is a genuine operational problem. It requires the same skepticism and internal controls that a good finance team applies to revenue recognition.

### ***Implementation Steps***

Managers who own any piece of ESG data, including energy consumption figures, employee safety records, supplier audit results, or diversity statistics, should institute a simple verification habit: before approving data for external reporting, ask whether the number reflects what actually happened or what we wished had happened. Build in a second-opinion step where someone not involved in generating the number reviews it for plausibility.

For managers in organizations where ESG reporting is centralized, this means pushing back on requests to provide data without being told how it will be used and what assumptions will be applied to it. Ignorance is not a defense if the reporting turns out to be misleading.

### **Create Safe Channels for Internal Dissent**

Several of the cases described above involved employees who knew something was wrong but had no safe mechanism to raise the issue. In some cases, the culture actively punished those who tried. The result was that small problems grew into large ones because the internal feedback loop that might have caught them early was broken.

### ***Implementation Steps***

Managers cannot single-handedly create organizational whistleblower protections, but they can create conditions within their own sphere of influence that make it easier for team members to raise concerns without fear. This means explicitly telling team members that questions about whether something is right are welcome, that no one will be penalized for slowing down a process to ask an ethical question, and that concerns raised in good faith will be treated seriously.

Practically, this can be as simple as including an agenda item called 'concerns and questions' in regular team meetings, or making it known that the manager's door is open for private conversations about things that do not feel right. In environments where formal whistleblower mechanisms exist, managers should make sure their teams know how to access them.

### **Align Incentives With ESG Outcomes, Not Just ESG Outputs**

A subtle but important source of ESG dysfunction in organizations is misaligned incentives. When managers and employees are rewarded for producing ESG reports, meeting reporting deadlines, and achieving certification milestones rather than for actually improving environmental performance, reducing workplace incidents, or strengthening supplier relationships, the incentive structure drives toward output rather than outcome.

### ***Implementation Steps***

Where managers have discretion over performance evaluations or team goal-setting, they should review whether their team's ESG-related targets are measuring the right things. Is the goal to complete the supplier audit checklist, or to actually improve supplier working conditions? Is the goal to hit the energy reporting deadline, or to reduce energy use? These are different targets, and they lead to different behaviors.

Managers should also push back in budget conversations when ESG spending is treated as a compliance cost to be minimized rather than an investment with an expected return. Organizations that genuinely value ESG outcomes tend to resource them accordingly. Those that treat them as a box-ticking exercise tend to underfund them, and the underfunding itself becomes a signal that the commitments are not serious.

### **Communicate Transparently with External Stakeholders**

The trust deficit problem is not only internal. Employees observe how their organization communicates with external stakeholders, including investors, regulators, local communities, and customers, and they draw conclusions from it. When the external communication is seen as inflated or misleading, employees internalize the lesson that honesty is not actually valued, whatever the stated values document might say.

#### ***Implementation Steps***

Managers with responsibility for any form of external communication, including supplier briefings, community consultations, investor relations input, or regulatory submissions, should apply a simple standard: would a well-informed stakeholder reading this communication agree that it accurately represents the situation? If not, revise it.

This is particularly relevant in emerging market contexts where regulatory oversight is weaker and the temptation to exploit information asymmetries is higher. The long-run cost of misleading external stakeholders consistently outweighs the short-run benefits. The cases of Satyam, Petrobras, and Steinhoff all eventually illustrated that point, at enormous cost to employees, shareholders, and the communities in which those firms operated.

### **Localize ESG Frameworks Rather Than Transplant Them**

Many ESG frameworks in use by emerging market firms were developed in Western regulatory contexts and applied without significant adaptation. This creates a mismatch between the framework's assumptions and the actual operating environment, which in turn produces disclosures that are technically compliant but informationally useless. Managers who are asked to implement ESG programs should resist the temptation to simply copy a template and instead take the time to understand what the framework is actually trying to measure and whether the measurement approach makes sense in their context.

#### ***Implementation Steps***

Start by identifying the specific ESG risks that are material to the organization's operations in its local context. A manufacturing firm in an Indian industrial town faces different environmental and community risks than one in a European suburb. A financial services firm in Brazil operates in a regulatory and political economy that differs substantially from the assumptions embedded in frameworks designed for London or New York.

Once the material risks are identified locally, design reporting and management practices around those risks and then map backward to whichever international framework the organization is required to report against. This bottom-up approach produces disclosures that are more credible to employees and local stakeholders, and more useful to anyone who genuinely wants to understand how the firm is managing its most significant exposures.

### **CONCLUSION**

ESG disclosure in emerging markets is doing more than one thing at once. For some firms, it is a genuine operational commitment that builds stakeholder trust and generates financial resilience over time. For others, it is a signaling exercise designed to satisfy external institutional expectations without significantly changing internal practice. For a smaller but consequential number, it is an instrument of regulatory arbitrage, a way to manage scrutiny rather than performance.

The cases examined here, from Satyam's fabricated balance sheet to Petrobras's corruption scandal to Steinhoff's accounting collapse, all involved organizations that were disclosing on the right frameworks while operating in ways that those frameworks were designed to prevent. The trust deficits that followed

were not just market events. They were organizational failures that damaged employees, local communities, and the credibility of disclosure as a mechanism for accountability.

Managers working inside these environments are not powerless. The advisories in this paper are not about grand strategic transformation. They are about the practical, daily choices that determine whether an organization's ESG commitments mean anything real: closing the gap between policy and practice, building verification habits, creating space for internal dissent, aligning incentives with outcomes, communicating honestly with stakeholders, and localizing frameworks rather than transplanting them mechanically.

The deeper question, whether ESG disclosure is creating value, signaling compliance, or arbitraging regulation, cannot be answered for all firms or all markets simultaneously. But it can be answered for the organization a manager works in, if they are willing to look closely enough. That is where the work actually happens.

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