

# ESG Indices and Corporate Responsibility: Assessing Transparency, Ethical Values, and Sustainable Performance

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## Abstract

This study examines the claim that ESG indices perfectly measure a firm's performance in fulfilling its responsibility to society and provide a transparent and unambiguous representation of its ethical values and beliefs. The discussion evaluates whether ESG functions as a reliable indicator of corporate responsibility or only as a partial and imperfect framework. The article adopts a critical and evaluative approach grounded in literature on ESG, corporate social responsibility, business ethics, and sustainability reporting. It reviews the historical development of ESG, its relationship with CSR and business ethics, its growing role in corporate governance, and the institutionalisation of ESG reporting through major standards and frameworks. The analysis also draws on illustrative case studies, including Apple and Volkswagen, to examine the practical strengths and weaknesses of ESG indices. The findings show that ESG indices offer important advantages, particularly in improving transparency, accountability, and the integration of sustainability into business strategy. They can support ethical alignment, strengthen stakeholder confidence, and encourage sustainable corporate practices. However, these benefits are constrained by significant limitations, including inconsistent measurement across rating agencies, greenwashing, excessive reliance on disclosure, and the gap between reporting and actual impact. The analysis finds that ESG indices do not provide a perfect or fully unambiguous measure of corporate responsibility.

The article contributes by combining ethical, practical, and governance-based perspectives to show that ESG should be understood as a useful but incomplete tool, whose credibility depends on stronger regulation, assurance, and alignment with the SDGs.

**Keywords:** ESG indices; corporate responsibility; sustainability reporting; business ethics, economic growth

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## 1. Introduction

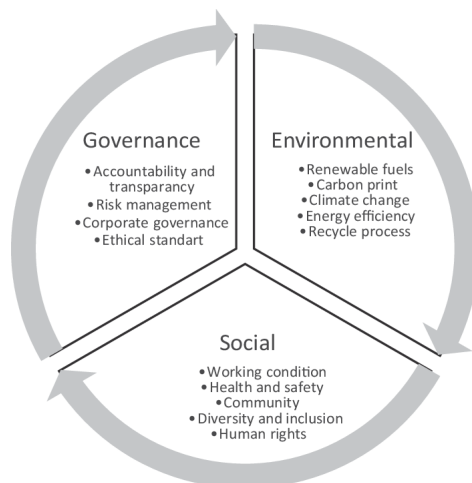
ESG has become one of the most important models for determining the manner in which companies handle their obligations beyond the immediate financial output. Initially sold as a means of introducing the non-financial factors into the analysis of investments, ESG has later evolved into a more comprehensive framework of assessing corporate behaviour, sustainability, and the quality of governance (Kirchhoff et al., 2024; World Bank Group, 2004). Since companies are increasingly compelled by their investors, regulators, customers, and the broader community to prove their accountability, ESG has come to the forefront of the discussion on business ethics, corporate social responsibility (CSR), and sustainable governance (Christensen et al., 2021; Passas, 2024). Nevertheless, despite the belief that ESG is a transparent and objective tool of responsible business behaviour measurement, there is still a controversial question regarding its capability to reflect the ethical commitment of a firm (Aziz & Alshdaifat, 2024; Berg et al., 2022; Gazi et al., 2025). The pillars of

ESG are directly connected with previous practises of CSR and business ethics. CSR has always focused on the responsibilities of companies to the stakeholders and society, and business ethics was the moral code applied to corporate activities. The concept of ESG can be interpreted as the institutional and quantifiable further development of these latter notions, and the concepts of ethical and social issues are converted into criteria that can be reported, rated, and compared between firms (Liang & Reneboog, 2020; Passas, 2024). This phenomenon has rendered ESG especially appealing to financial markets, as it is expected to tie sustainability issues with risk management, long-term value creation, and corporate responsibility (da Cunha et al., 2025; de Souza Barbosa et al., 2023). In this regard, ESG is not just an expression of a moral desire, but an effort to operationalise responsible behaviour in a manner that can be read by investors and governance institutions. According to Figure 1, the ESG framework is designed to be organised in three interconnected aspects, which are the environmental, social and

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governance. The environmental pillar is an assessment of the impact of organisations on the natural environment concerning issues of carbon emission, resource consumption, pollution management, and climate change. The social pillar is concerned with the relationship with the employees, consumers, suppliers and communities, such as the labour practise, diversity, inclusion, and human rights. The pillar of governance deals with board structure, executive responsibility,

shareholder rights, anti-corruption, and the ethical systems that influence the organisational decision-making. These three pillars are meant to be used together so that they can offer a complete system of assessing whether firms are being responsible in the context of society and environment, as opposed to just maximising profits (de Souza Barbosa et al., 2023; Liang & Reneboog, 2020).



**Figure 1: The ESG Framework**  
 Source: (Nareswari et al., 2023)

Even though its role continues to rise, ESG is an issue of considerable scholarly and practical controversy. On the one hand, advocates say that ESG reporting can enhance transparency and stakeholder trust and motivate companies to conduct their activities in accordance with overall sustainability goals (Aziz & Alshdaifat, 2024; Huiping et al., 2024). The framework has likewise been connected with the enhanced corporate performance, the enhanced risk management, and more organised methods of long-term value creation (da Cunha et al., 2025). Conversely, the detractors raise the question as to whether ESG measures are actually an ethical responsibility or merely give the illusion of responsibility. Among the most severe criticisms are related to a difference in ESG ratings across agencies, which implies that some companies can be rated significantly differently based on the methodology applied (Berg et al., 2022). This discrepancy invalidates any argument that ESG indices provide an accurate, transparent, and comparatively universal image of corporate responsibility. Increased ESG reporting has also provided a new focus on the issue of standardisation, comparability, and the threat of giving superficial compliance. Firms might prioritise the creation of positive reports instead of attaining actual ethical or environmental change, as disclosure of sustainability gains more and more acceptance. In these instances, the ESG risks turn into a tool of impression management instead of a good indicator of values and behaviour (Aziz & Alshdaifat, 2024; Christensen et al., 2021). Besides, even though the concept of ESG was first promoted as a tool of integrating responsibility into the financial decision-making process, its proximity to the priorities of investors can sometimes lead to the

thinning of the concept of responsibility, turning ethical inquiries into quantifiable indicators and disclosures that are relevant to the market (Liang & Reneboog, 2020; Passas, 2024). This is the core of the ongoing academic discussions on whether ESG is a significant change in the field of corporate accountability or a narrow and inappropriate proxy. It is against this backdrop that this paper critically analyses the argument that ESG indices flawlessly assess the performance of a firm in discharging its duty to society and offer a clear-cut and plain shadow of the ethical values and beliefs of the firm.

**2. Background and Context**  
**2.1 Origin of ESG indices**

It was in the year 2004 that ESG indices started to form as the United Nations Global Compact spearheaded the incorporation of environmental, social, and governance aspects into investment decisions. The main idea behind this initiative was that a sense of responsible environmental and social conduct was to be seen as inseparable from long-term corporate success (World Bank Group, 2004). This perspective was also reflected in Gary M. Pfeiffer’s statement that “*Enhancing environmental and social performance is an enormous business opportunity*” in a world increasingly shaped by shareholder value. Concurrently, the opponents noted that such a perception would lead to the degradation of ethical responsibility to a financial tool instead of viewing it as a moral duty on its own. In spite of this criticism, the ESG framework has developed into one of the key instruments for assessing corporate sustainability and ethical performance (Kirchhoff et al., 2024).

**2.2 The relationship between business ethics, CSR, and ESG**

CSR and business ethics offer the intellectual basis based on which the ESG framework has been built. Though they differ in theory, CSR and ESG have been interchanged with each other in academic and professional discourses. Business ethics provides the normative setting with the help of which corporate behaviour is assessed, and responsible decision-making is directed (Versteegt et al., 2026). In comparison, CSR mainly focuses on the relationships of a firm with its stakeholders, and ESG is a transformation of these wider ethical and social commitments into standard measures of measuring sustainability performance (de Souza Barbosa et al., 2023; López-Cabarcos et al., 2025). This difference plays a critical role in that it shows how ESG institutionalises CSR and business ethics in corporate governance, and hence makes ethical responsibility part of the financial and managerial decision-making.

**2.3 Why ESG Gained Prominence in Corporate Governance**

The rise in the popularity of ESG in corporate governance has been caused by the rising demands of the stakeholders to be transparent, as well as by the enhanced awareness of the role of ESG in long-term firm value. Current literature shows that there is a significant correlation between the level of ESG engagement and the following governance issues: independence of the board and board diversity (Kumar et al., 2024). Moreover, governance systems have been found to curb ESG controversies, another reason why it is essential to integrate ESG into governance systems (Elamer & Boulhaga, 2024). In turn, ESG has become the key tenet of contemporary corporate governance that has defined the investment decision-making process of investors and the responsibility of managers.

**2.4 Institutionalisation of ESG Reporting**

Over the past years, ESG reporting has shifted away more and more towards institutionalisation rather than voluntary disclosure. The Corporate Sustainability Reporting Directive by the European Union has now mandated that large and publicly traded companies disclose more about sustainability (Breijer et al., 2025). Equally, the increased regulatory attention on transparency in the non-financial reporting has been mirrored in climate-related disclosure practises in the United States, as well as wider discussions on the topic of mandatory sustainability reporting (Christensen et al., 2021). Besides these jurisdiction-based developments, the Global Reporting Initiative and the International Sustainability Standards Board have also been significant in streamlining ESG metrics in an effort to minimise fragmentation between rating agencies and enhance comparability. The key ESG reporting standards, as illustrated in Table 1, are characterised by a structural basis, which refers to disclosure criteria with regard to governance, strategy, risk management, metrics and targets despite the differences in coverage and focus. Nevertheless, the Global Reporting Initiative and the Corporate Sustainability Reporting Directive/European Sustainability Reporting Standards place more emphasis on materiality and are more demanding since they not only demand disclosure of financially relevant information but also other wider social and environmental effects. Conversely, the Sustainability Accounting Standards Board, the International Sustainability Standards Board, and the Task Force on Climate-related Financial Disclosures are more concerned about investor materiality as they place much importance on enterprise value information. This difference is significant as it demonstrates how ESG indices can by no means be said to measure corporate responsibility perfectly: various materiality lenses cause discrepancies with what is reported, how responsibility is perceived, and how performance is evaluated.

**Table 1:** Primary ESG reporting standards

Standard	Key Requirements	Advantage	Disadvantage
<b>ISSB (IFRS S1 &amp; S2)</b> – Mandatory only in jurisdictions adopting ISSB	Governance; strategy; risk management; metrics and targets	Investor-focused and integrated with SASB standards	Limited stakeholder focus and uneven adoption across jurisdictions
<b>GRI (Global Reporting Initiative)</b> – Voluntary	Broad sustainability disclosures covering environmental, social, and governance impacts; stakeholder-oriented reporting	Strong stakeholder focus and a widely recognised framework	Risk of excessive disclosure and lower comparability
<b>SASB (Sustainability Accounting Standards Board)</b> – Voluntary	Industry-specific sustainability disclosure standards focused on financially material issues	Strong emphasis on investor materiality and sector relevance	Largely superseded through integration into ISSB standards
<b>TCFD (Task Force on Climate-related Financial Disclosures)</b> – Voluntary	Governance, strategy, risk management, metrics and targets related to climate	Clear focus on climate-related financial risk	Scope limited primarily to climate-related issues
<b>EU CSRD/ESRS (Corporate Sustainability Reporting Directive / European Sustainability)</b>	Detailed sustainability disclosures based on double materiality, including	Legally enforceable and comprehensive	Costly compliance requirements and high reporting complexity

<b>Reporting Standards) – Mandatory for large and listed firms in the EU</b>	governance, strategy, impacts, risks, and opportunities		
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Source: (Christensen et al., 2021; European Commission, 2023; Gadinis & Fregoni, 2025; GRI, 2021; IFRS Foundation, 2023; Oskarsdottir et al., 2025; Passas, 2024; Sustainability Accounting Standards Board, 2020; TCFD, 2017)

### 3. Advantages of ESG Indices

#### 3.1 Transparency and Accountability

Among the major strengths of ESG indices is the enhancement of transparency and corporate reporting accountability. The ESG framework enables the lessening of information asymmetry among firms and their stakeholders by mandating the disclosure of non-financial information. This heightened openness

establishes quantifiable standards against which firms can be evaluated against their proclaimed sustainability pledges and thus boost accountability and increase faith in the corporate governance structures. The argument is recently confirmed by research demonstrating that standardised reporting of ESG may help raise investor confidence and minimise the risk of opportunistic behaviour. (Wahyuni, 2025; Yixuan et al., 2025).

#### 3.2 Adherence to Ethical Principles

The ESG indicators serve as a valuable tool for harmonising corporate actions and ethical conduct as well. Although CSR and business ethics create a line of commitment to stakeholder responsibility, ESG is more operational as it makes these commitments tangible and practical in the form of quantifiable and practical standards. The latter view can be backed by the fact that research indicates that introducing ESG integration is the key to mitigating the lack of an overlap between profitability-centred goals and ethical standards to make sure that sustainability is incorporated in the process of strategic decision-making (Alhazemi, 2025). This perception is echoed in the industry analysis provided in the report *Who Cares Wins* which stated that ESG factors have a direct effect on competitiveness and shareholder value (World Bank Group, 2004). In this respect, it is possible to comprehend ESG indices as reporting mechanisms as well as institutionalising ethical responsibility in business practise.

#### 3.3 Support in Sustainable Business Practices

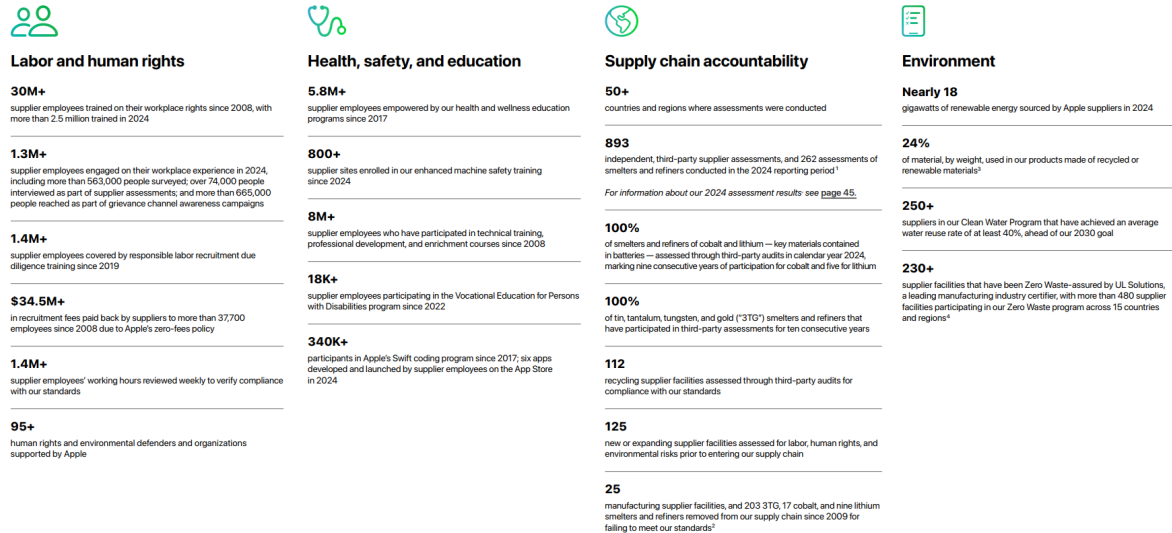
ESG indices are significant in facilitating sustainable business practises as they enable connecting the

environmental and social performance to long-term value creation. Good ESG performance has been linked with high operational efficiency, increased resilience, and competitiveness in the global markets (da Cunha et al., 2025). Moreover, the implementation of ESG can help accomplish the Sustainable Development Goals by making firms implement such practices as carbon reduction, responsible resource management, and diversity in the workforce. Also, it is supported by empirical evidence that high ESG performance has the potential to have a positive impact on future cash flows, which supports its value as a driver of sustainable corporate success (Suresh et al., 2025).

#### 3.4 Case studies (Apple Inc)

Apple Inc. is a good example of a successful ESG, especially in the context of introducing sustainability into its supply chain and product innovation policies. The studies of the impact of ESG practises on the corporate financial performance of Apple mention that the company has invested significantly in renewable energy and is determined to be carbon neutral in its entire value chain by 2030 (Suresh et al., 2025). These results indicate the position that sustainability campaigns can be closely associated with the profitability and the long-term business achievements.

Along with its environmental pledges, Apple has also factored in the influential social aspects in its ESG approach, which encompass labour rights, the work environment, responsibility and diversity of its workforce. As Figure 2 shows, the supply chain responsibility metrics of 2024 by Apple are indicative of the ongoing monitoring and enhancement of labour, safety, accountability, and environmental performance by the supply chain of Apple (Apple, 2025). The case shows that a company is able to integrate sustainability in its business operations and still remain competitive in the global market. On a larger scale, the Apple case indicates that ESG indices may not only facilitate disclosure and assessment, but also the actual application of sustainable and ethically judgmental corporate approaches.



**Figure 2: Apple’s 2024 Supply Chain Responsibility Metrics for Labour, Safety, Accountability, and Environment**  
 Source: (Apple, 2025)

**4. Limitations of ESG Indices**

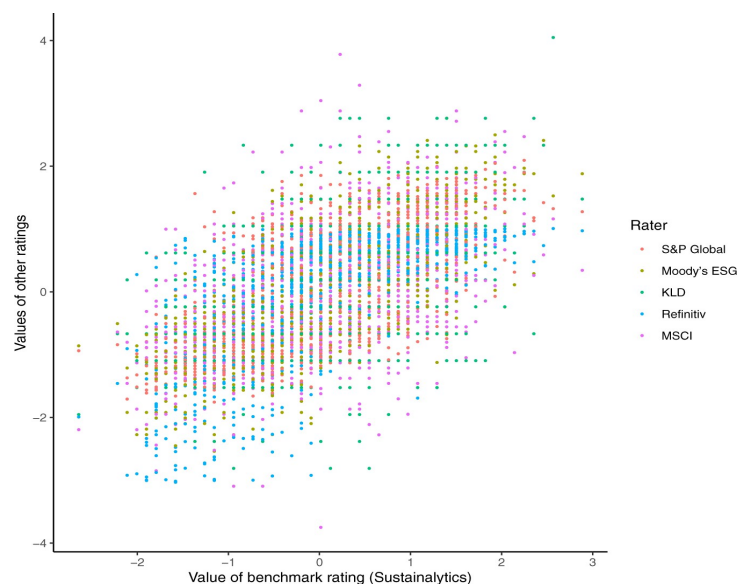
**4.1 Measurement challenges**

One of the biggest weaknesses of ESG indexes is the absence of standardisation and subjectivity in measurement. The same organisation will have different ESG scores depending on the rating agency, compromising the comparability and casting doubts on the reliability (Aziz & Alshdaifat, 2024). As seen in Figure 3, the same company can have vastly different ESG ratings based on the methodology applied by a particular provider. The same issue was averted in the *Who Cares Wins* report, which indicated that analysts had problems with time horizon differences and the evaluation of intangibles (World Bank Group, 2004). Such discrepancies still keep undermining the reliability of ESG indices, especially where companies are likely

to only disclose information that favours them in a bid to achieve a better rating.

**4.2 Risk of greenwashing**

The second significant drawback with ESG indices is the danger of greenwashing, i.e., the assumption that companies are overstating or reporting false sustainability results due to reputational or financial gain. This issue is highlighted by the fact that, without strong life-cycle approaches, ESG reporting may turn into a branding project rather than a serious corporate responsibility (Ruggeri et al., 2025). Equally, the lack of completely controlled disclosure systems promotes the chances of false or partial sustainability assertions (Lokuwaduge & Silva, 2022). Consequently, this means that ESG ratings can, at times, be rewarded for communication strategies as opposed to material ethical and environmental performance.



**Figure 3: Difference in ESG rating between providers**  
 Source: (Berg et al., 2022)

**4.3 Reporting vs actual impact (Green fatigue)**

Another issue is that ESG is more likely to focus on reporting metrics as opposed to impact. The ESG reporting can lead to the loss of connection between the corporate reporting and operational change, as companies are more concerned about the outputs of disclosure rather than the real change in practice. (Christensen et al., 2021). Moreover, the increased amount and difficulty of ESG disclosures may overwhelm the stakeholders and lead to disengagement. This is usually referred to as green fatigue; it limits the efficacy of ESG reporting as the stakeholders might not know how to differentiate between serious commitments and regurgitated compliance-based declarations. The literature already confirms this issue because it demonstrates that overwhelming and over-technical disclosure can compromise the accountability agendas of ESG models (Li et al., 2024).

**4.4 Case study (Volkswagen)**

The ESG indices demonstrated by the Volkswagen Dieselgate scandal offer a bright example of the shortcomings of the previously successful ratings since the company was rated highly, but its good results did not disclose significant underlying governance and ethical mistakes. In 2015, Volkswagen actively used the defeat devices to deceive emissions tests and present cars with the ability to produce pollutants way over the legal limit, making them seem emissions compliant (Gates et al., 2015; Reuters, 2016). Two significant

failures in governance came to light in this incident. First, it showed a grave violation of environmental and ethical responsibility by using the fraudulent software. Second, it showed how the emphasis on the performance goals at the expense of integrity can lead to the establishment of a positive internal culture, according to which the warning bells are overlooked. Besides the reputational losses in the long run, Volkswagen had to pay fines and settlements worth more than \$30 billion. This case thus indicates that, in certain cases, ESG ratings hide the actual situation of corporate responsibility instead of reporting it.

**5. The Philosophical Perspective and Comparative Synthesis of ESG Indices**

Considering these results, meeting the view of Table 2, the shortcomings of ESG indices seem to override their benefits. To begin with, the presence of various ESG reporting standards creates uncertainty regarding consistency because the same company may get different ratings in different agencies, undermining credibility and comparability (Huiping et al., 2024). Also, ESG disclosure has not yet been effectively implemented in most settings, which gives the opportunity to selective reporting and divergent practise of standards. The introduction of ESG standards can also be associated with significant financial and administrative expenses, which may put small companies off participating and make adoption easier for large companies compared to smaller companies. (Huiping et al., 2024).

**Table 2:** Advantages and limitations of ESG indices

Aspect	Advantage	Limitation	Ethical/Theoretical Lens
Transparency	Improves trust	Rating varies across agencies	Carroll’s Pyramid
Ethical Principles	Integrate moral duty with the profit motive	Reducing ethics to utility	Kantian duty vs. utilitarian bias
Sustainable Practices	In line with SDGs	Greenwashing & green fatigue	Stakeholder theory vs shareholder primacy

The other critical issue is that companies can use ESG solely as a means to make money and not as an instrument of change, which indicates the larger-scale critique that CSR and ESG can be used as an instrument instead of an authentic ethical undertaking (Teck et al., 2018). Also, a continuous disclosure-reality divide exists, as seen in the cases of Volkswagen, where a good ESG profile failed to make unethical or harmful behaviours impossible. Moreover, greenwashing and green fatigue undermine authentic effect by transforming ESG reporting into a checklist exercise or branding system, which reflects the fears that CSR practises may degenerate into a form of window dressing instead of creating incremental change (Teck et al., 2018). The last issue is a propensity towards believing

that ESG frameworks automatically lead to positive results, even in light of the fact that the general population lacks the insight and critical thinking about the boundaries of ESG as such.

**6. The Role of SDGs and Institutionalised Governance**

The ESG structure threatens to diminish ethics as a collection of quantifiable metrics and the materiality of shareholders in the larger social responsibility. The Sustainable Development Goals, in turn, offer a more ethical approach, as these elements include the concepts of justice, inclusiveness, and long-term sustainability. It has been upheld with studies that the incorporation of ESG with SDGs, as Figure 4 shows, that the reporting of sustainability can be used to re-establish corporate

responsibility by making sure that the sustainability reporting is focused not only in terms of investor confidence but also in terms of societal transformation.



**Figure 4:** SDGs mapping on ESG pillars  
 Source: (Markopoulos et al., 2023)

Standardisation of disclosure practises, curbing greenwashing and enhancing comparability can all be achieved through mandatory reporting, assurance procedures and increased regulatory control to minimise the limitations of the current voluntary form of ESG reporting. The researchers state that the adoption of regulatory frameworks like the ISSB and the CSRD is the first step in the process of harmonising the reporting standards and enhancing the process of external verification (Gadinis & Fregoni, 2025; Oskarsdottir et al., 2025). In much the same way, assurance procedures, which are integrated into governance structures, could be used to synchronise ESG claims and audited information, thus reducing the disclosure-reality gap (Li et al., 2024). These trends indicate that institutionalised governance can render ESG reporting more valid, adhesive and morally anchored. Altogether, the discussion above shows that the combination with the SDGs of institutionalised governance is a direction of a future where ESG becomes integrated, no longer a fragmented disclosure system, but a more credible and ethically based framework of sustainable corporate practice. The discussion has shown that ESG indices continue to be valuable in stimulating disclosure, transparency, and sustainability awareness, but they are not the ideal and clear measure of corporate responsibility. They are effective when they are better standardised, have credible mechanisms of assurance, and have a wider ethical foundation that removes the narrowness of investor materiality.

**7. Conclusion**

In conclusion, ESG indices are significant instruments for assessing corporate sustainability, transparency, and governance, yet they cannot be a perfect measure of the responsibility of an organisation to society and a full-scale view of ethical values and beliefs. Their greatest

asset is that they enhance disclosure, accountability, and motivate businesses to incorporate environmental, social, and governance issues in their strategic decision-making. As the article has explained, ESG would facilitate sustainable business operations, enhancing investor confidence and increasing corporate responsibility awareness. Nevertheless, these strengths are restrained by a number of structural vices. Little standardisation among rating agencies enhances the lack of comparability and reliability; moreover, many reporting frameworks are voluntary and fragmented, and this results in possibilities for selective disclosure and greenwashing. Moreover, the discrepancy between the reported performance and real corporate behaviour indicates that good ESG ratings may not necessarily indicate the actual ethical behaviour as witnessed in the Volkswagen case. ESG reporting can also result in green fatigue, where excessive and repeated disclosures, instead of reinforcing stakeholder engagement, undermine it. These are the reasons why ESG indices can be viewed as working but flawed tools. It is a partial structure for measuring corporate responsibility, not a perfect or complete one. A plausible future of ESG will be more institutionalised, compulsory and authenticated reporting norms and be more closely associated with the Sustainable Development Goals. These reforms will assist in putting ESG out of piecemeal disclosure and into a more ethically based, transparent and socially significant framework of corporate responsibility.

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