Using trust and credibility to bridge sustainability reporting divisions

With ESG under fire, strengthening disclosure requires stakeholder cooperation to overcome polarized thinking on sustainability reporting.



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Corporate disclosure standards now occupy a particularly divisive place in the polarized debate around environmental, social and governance (ESG) issues. But it doesn't have to be that way. It's possible to generate sustainability reporting that's credible and trustworthy rather than political.

ESG reporting can take a page from the standard financial reporting process that evolved over many decades into what it is today. At the same time, ESG reporting is a different beast: It relies on scientific and engineering models but also subjective judgments. Whereas standard financial reporting reflects past performance, sustainability disclosures are more forward-looking and involve hard-to-report external risk factors like carbon emissions or biodiversity loss. They require multiple stakeholders working together.

Understanding these differences is important because it informs who can generate **trust** and **credibility** in the system, and how.

- **Trust** is linked to the messenger, or the degree of confidence in the reporting company and the ecosystem that governs how sustainability information is produced and verified.
- **Credibility** relates to the message itself, and whether the information provided is reliable, verifiable and accurately represents what is happening in the company.

I use both concepts to propose an organizing framework for ESG reporting, which I explain in an article for *Accounting and Business Research*.

Who are the stakeholders?

In ESG reporting, five stakeholders shape trust and credibility:

1. **Regulators.** The uniqueness of sustainability reporting introduces distinct challenges for regulatory design. One major sticking point is how to define materiality. U.S. regulators tend to favor single materiality, focusing on how ESG factors affect a company's financials. Europeans lean toward double materiality, which also factors in a company's external impact. Unified global standards are necessary for cross-border coordination, given that many of the externalities to be reported are, in fact, global.
2. **Boards.** Boards of directors need to replicate the oversight and governance role they exercise in financial reporting with sustainability reporting, acquiring relevant expertise, allocating sufficient time and investing in controls over nonfinancial data.

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Some boards set up specific sustainability committees and link executive compensation to ESG criteria.

3. **Shareholders and debtholders.** Shareholders can pressure companies through their votes on ESG-related issues. Institutional investors carry particular weight as they consult with company executives and may decide whether to sell stakes depending on ESG factors. Bank and non-bank lenders may also demand ESG standards in credit decisions as well as linking loan pricing to ESG metrics.
4. **Gatekeepers.** The same auditors who do standard accounting for financial reporting may not be suitable for ESG reporting. Besides frameworks and standards being fragmented and new, the accounting and auditing profession requires new expertise to report on complex scientific and engineering measurements, third-party data and forward-looking scenario analyses.
5. **Other stakeholders such as employees, suppliers and customers.** By incorporating supply-chain data, ESG metrics convert suppliers into participants in the reporting process, which doesn't happen in the same way in financial reporting. Activism by employees, who are closest to operations, also act as levers. Politicians and the media add their voices. And foreign stakeholders — including international investors, foreign regulators, cross-listed entities and transnational organizations dedicated to ESG issues — further shape standards.

What determines ESG stakeholders' influence?

Underpinning trust and credibility are four key dimensions:

1. **Proximity to information creation.** How directly can each of the abovementioned stakeholders affect the generation and integrity of sustainability data? Boards sit at the start of the reporting process, whereas capital providers and regulators are one step removed. Gatekeepers enter at a later stage, reviewing the information provided. Other stakeholders tend to act reactively.
2. **Scope of influence.** How broadly do a stakeholder's actions affect reporting tactics across firms or markets? Regulators and capital providers have systemic, broad reach. Boards and auditors act at the firm level. Other stakeholders tend to focus on narrower issues, although their impact may be high-profile.
3. **Maturity of mechanisms.** How developed and institutionalized are each stakeholder's tools and frameworks for influencing credibility? Financial reporting benefits from decades of stable auditing and enforcement, but ESG is still in its

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infancy. While regulation is relatively far along in the EU, in other places it barely exists. Some boards have put governance mechanisms into place, while gatekeepers' auditing is a work in progress.

4. **Incentives to monitor.** How strongly is each stakeholder motivated to ensure credible disclosure? Boards are motivated by fiduciary duties and reputational concerns. Capital providers combine financial motives with intrinsic preferences. Regulators are driven by public accountability and policy objectives. Gatekeepers rely on commercial and reputational incentives, while other stakeholders act mainly out of normative motivations.

Why ESG reporting takes a village

In financial reporting, a chain of relatively well-defined responsibilities builds credibility: management produces the figures, boards oversee the process, auditors verify the numbers and regulators enforce compliance.

In ESG reporting, by contrast, the boundaries between these functions are blurred, and there is much greater dependency on the work of other parties.

As my framework makes clear, no single stakeholder or mechanism has the power to secure credibility on its own. This has important policy implications. Since credibility depends on interaction and reinforcement among multiple mechanisms, regulations must strengthen coordination across different stages of the reporting process rather than operate in isolation.

That introduces a complexity that is mostly absent from traditional financial reporting. But it also means that no single entity can halt efforts to produce more widespread, relevant and reliable information on sustainability.

MORE INFO: "Trust and credibility in sustainability reporting" by Gaizka Ormazabal is published in *Accounting and Business Research* (2026).

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