

## ESG as Measurement or Myth? A Critical Review of Its Role in Corporate Responsibility and Sustainable Finance

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### ABSTRACT

Environmental, Social, and Governance (ESG) has become a powerful model that drives corporate responsibility and sustainable finance in the world. Although it has been institutionalized rather quickly, academics and practitioners are becoming more doubtful that ESG is a viable measuring tool or it is a symbolic one. This narrative critical review is a synthesis of recent literature used to assess the conceptual underpinnings, the validity of measurement, and the implications of ESG in the corporate and financial setting. Based on recent research up to 2025, the review points to three broad streams, namely: ESG as a performance measurement instrument, ESG as a market mechanism in sustainable finance, and ESG as a contentious or myth-like entity open to credibility issues. The results of the analysis show that there is a recurring methodological inconsistency, rating deviation, disclosure reliability problems, and normative ambiguities that question the effectiveness of ESG. Although ESG has been highly effective in determining capital distribution and corporate strategy, its measurement framework is still disjointed and open to greenwashing and manipulation of strategies. The article concludes that ESG is not an entirely myth or entirely sound measurement tool, but is an emerging technology in governance that needs further refinement of its methodology, harmonisation of regulations and a greater degree of assurance. Research directions are suggested in the future to increase the credibility of ESG and theoretical transparency

**Keywords:** ESG, sustainable finance, corporate responsibility, ESG rating, greenwashing, critical review, industrial growth

### INTRODUCTION:

Environmental, Social, and Governance (ESG) has become one of the most dominant frameworks that determine the modern-day corporate conduct and capital markets worldwide. In the past ten years, investors, regulators, and stakeholders have become increasingly dependent on the ESG indicators to evaluate the sustainability performance of firms, their levels of risk exposure, and potential creation of long-term value. The introduction of ESG beliefs into regular finance is indicative of the greater change in focus over shareholder primacy to a stakeholder-focused form of capitalism, in which companies are not just expected to achieve financial gains but also to produce quantifiable social and environmental benefits. According to Liang and Renneboog (2020), Matos (2020) and Gazi et al (2025), ESG has ceased to be considered a niche ethical screening instrument but a key point of responsible investment strategies across the globe. Although the field of ESG is increasingly gaining institutional legitimacy, it is a highly disputed area among academic and practitioner circles.

Although it has the benefits mentioned above, critics or opponents of ESG claim that the idea of ESG measure lacks conceptual consistency, measurement reliability and practical usefulness. The current research points to such endemic issues as rating divergence, methodological obscurity, the risks of greenwashing, and the possible symbolic implementation of ESG practices (Lucarelli and Severini, 2024; Boiral et al., 2020). Such issues have become the source of an emerging debate as to whether ESG is a strong measurement framework or whether it has become myth-like, and merely plays a legitimacy and reputational role as opposed to a substantive transformative influence on sustainability. The antecedents of this argument are high. The sustainable investment assets of the globe are growing, and the regulatory communities of most prominent jurisdictions are gravitating towards compulsory ESG disclosure frameworks (Billio et al., 2024; Zairis et al., 2024). When ESG metrics are not reliable and clear in meaning, the capital allocation decisions and the corporate strategies are based on weak informational principles. On the other hand, once ESG can be optimized and formalized, it can

become one of the greatest governance technologies to deal with climate risk, social inequality, and corporate accountability. The paper presents a narrative critical review of the best quality to analyze the dual nature of ESG as a measurement tool and a myth which could be mythified. The review summarizes the current literature until 2025 in order to assess the conceptual frameworks of ESG, measurement, and its contribution to sustainable finance. The analysis is aimed at answering the major question of whether ESG is a performance evaluation system or whether current performance evaluation practices are symbolic compliance and institutional isomorphism. The paper is critical in incorporating the recent scholarship and therefore it is added to the current debate of credibility and future path of ESG in corporate responsibility and financial markets.

## 2. Conceptual Foundations of ESG

The theoretical history behind ESG traces to the larger tradition of corporate social responsibility (CSR) that traditionally focused on the ethical responsibility of firms to society. But ESG is also a drastic change in the scope and direction. As much as CSR was commonly perceived as being normative or philanthropic, ESG can convert sustainability issues into standardized metrics and be included in financial analysis and investment decisions (Matos, 2020). Liang and Renneboog (2020) state that ESG is an effective method of financialization of sustainability because it introduces environmental and social externalities into risk-reward systems adopted by investors. Recent literature recommends that, ESG ought not to be seen as an extension of CSR but that is a hybrid governance architecture that exists at the interplay of corporate strategy, financial markets, and regulatory oversight. According to Dos Santos et al. (2025), ESG is described as an institutional maturation of CSR, as the preference towards measurable indicators is a sign of the demand of investors to have comparability and accountability. This has changed ESG into being deeply integrated in the processes of managing assets and corporate reporting. There are several theoretical approaches that can be used to explain the fast spread of ESG. One of the most powerful lenses is the stakeholder theory which suggests that companies can generate long-term value by considering the needs of a wide range of stakeholders instead of concentrating solely on shareholders. In this light, ESG measures can be used as operationalization of the responsiveness of the stakeholders and non-financial performance measurements (Freeman, 1984; Gillan et al., 2021). The theory of legitimacy is a complementary explanation, which proposes that a company may implement ESG disclosures to be socially approved and adhere to the changing expectations of the society (Owolabi et al., 2024). Institutional theory also describes the worldwide distribution of ESG by coercive regulatory forces, normative professional judgments, and mimetic emulation among companies that want to attain legitimacy (Krambia-Kapardis et al., 2023). Simultaneously, agency theory presents a more cynical application by pointing to the possible managerial opportunism. In this perspective, ESG projects can be associated with managerial signaling or reputation management, instead of real commitment to

sustainability (Matos, 2020). This theoretical dilemma prefigures the main argument that this paper will examine: ESG can both be a material performance method and a symbolic legitimacy structure.

## 3. ESG as a Measurement Tool in Corporate Responsibility

This has been coupled by the emergence of rating agencies, data providers and disclosure systems that are meant to measure the performance of corporate sustainability. Firms like MSCI, Sustainalytics, and Refinitiv have generated ESG scores that are now highly applicable in academic studies, portfolio management and corporate benchmarking. It is claimed by its advocates that such measures increase transparency, decrease information asymmetry, and allow investors to price sustainability risks better (Liang and Renneboog, 2020). According to empirical research, positive relationships are often found between ESG performance and other financial results, such as, reduction in the cost of capital, better risk management, and a higher valuation of the firm. According to Gillan et al. (2021), companies that have a high ESG rating tend to have (or appear to have) increased operational resilience and stakeholder confidence. Correspondingly, Pastor et al. (2021) present factual evidence that sustainability features may affect the dynamics of asset pricing, especially during the years of increased environmental awareness. Rahmiyati (2025) goes further to suggest that the consideration of ESG is becoming integrated into the strategic financial management and inform corporate investment decision as well as the capital structure decision making. Disclosure quality and assurance mechanisms are also very important in the credibility of ESG as a measurement system. According to Boiral et al. (2024), external assurance of ESG reporting may enhance the confidence of stakeholders in ESG reporting, as it decreases chances of misreporting and opportunistic disclosure. The same point is raised by Atkins et al. (2023), who emphasize that strong metrics can help to ensure that the system remains relevant in the case of a systemic shock, such as the COVID-19 pandemic. These changes imply that ESG has gone over a long way to become a structured performance rating framework. However, the literature has repeatedly warned of the fact that the measurement of ESG is still an immature and flawed science. Although ESG scores are great indicators, their methodology and applicability across providers are still areas of ongoing discussions.

## 4. The “Myth” Debate: Critical Perspectives on ESG

There is an emerging academic literature that doubts the effectiveness of ESG measures in reflecting the sustainability performance or the role that they serve as symbolic measures which bring legitimacy but does not guarantee substantive change. Boiral et al. (2020) develop one of the most significant criticisms where sustainability indicators are viewed as a rational myth. The view on this point of view is that ESG reporting models are implemented in organizations because they are socially normative and institutionally compensated even when the underlying metrics have little relationship with actual environmental or social results. Such dissociation

between formal organization and reality is typical of the institutional theory dynamics. Lucarelli and Severini (2024) build on this criticism by referring to ESG ratings as a chimera and highlighting the conceptual vagueness and measurement weakness of existing methods of rating. Their discussion indicates that ESG scores tend to bundle heterogeneous indicators into some composite indices, which do not ensure sustainability performance but blur it. Such aggregation issues may give an illusion of accuracy and subtle a large amount of underlying uncertainty. The most common credibility issue that has been documented is the inconsistency among the ESG rating providers. Berg et al. (2022) show that correlations of major ESG ratings are quite low, which indicates the distinctions in the selection of indicators, schemes of weighting, sources of data, and philosophies of evaluation. Similar to Liang and Renneboog (2020), methodological heterogeneity is pointed out as a factor that reduces firms and market comparability. When disparities between the scores of various providers of ESG to the same company are significant, the usefulness of ESG as a measurement tool is cast in a negative light. The issue of greenwashing also creates an additional challenge to the ESG. Arslan et al. (2025) caution that companies can use disclosures strategically to boost their ESG rating without actually making any significant sustainability changes. According to Owolabi et al. (2024), the normative assumptions space within ESG frameworks has the potential to induce incentives towards impression management especially in highly visible sectors. Ho (2024) further explains that the existence of competing stakeholder expectations and unclear corporate goals is also a factor that leads to continued ESG myths as companies attempt to deal with contradicting forces of investors, regulators, and society. The other new criticism is on the cultural and epistemic limitations of ESG. According to Poyser and Daugaard (2023), mainstream ESG frameworks are usually informed by Western financial logics, and fail to capture the Indigenous and community-based sustainability activities. Such a restriction poses larger questions who embed their values and priorities into ESG metrics. All these criticisms do not, of course, imply that ESG is not valid, but merely indicate that the current adoption of it reflects a lot of symbolic, performative aspects. What the scholars and policymakers have difficulty in explaining is whether these vices are transitional growing pains or structural vices.

## 5. ESG IN SUSTAINABLE FINANCE

Nevertheless, ESG has permeated the framework of sustainable finance despite the continued criticism. According to Billio et al. (2024), ESG integration is a core process of addressing the climate risk and sustainability aspects in financial decisions making. The quick growth rate of assets under management that are ESG-compliant denotes the great demand of investors in responsible investment strategies and the risk-sensitive portfolio development. The role of institutional investors is especially significant in the process of ESG adoption. According to Matos (2020), the use of ESG data in the portfolio screening process, engagement strategy, and risk management has become a primary concern of

pension funds, sovereign wealth funds, and asset managers. According to Pastor et al. (2022), sustainable investing is at the state of equilibrium where the preferences of investors towards environmental and social responsibility directly affect the prices of assets. Institutionalization of ESG is also picking up pace because of regulatory developments. Zairis et al. (2024) note the increasing overlap on mandatory sustainability disclosure regimes and especially in the European Union. As reported by Christensen et al. (2021), the mandatory reporting requirements have the potential of a considerable positive effect on transparency and comparability, but at the same time, these increase costs of compliance. Kandpal et al. (2024) underline the fact that sustainable financing options are considered critical to the global energy transition and overall climate goals. Nevertheless, there are also new risks associated with the financialization of ESG. According to Poddar (2025), the ESG investing exuberance in the market should at times be balanced with the quality of measurement, which can result in mispriced assets and misplaced expectations. The same concern is expressed by dos Santos et al. (2025) who hopes that defining sustainability in terms of investor metrics can simplify the wider social purpose of the corporate responsibility. All these tensions indicate that the role of ESG in sustainable finance is both challenging and radical. Although ESG has been able to harness capital to sustainability themes, the long-term success determines whether this action would be effective by further enhancing the credibility of measurements and regulatory coherence.

## 6. METHODOLOGICAL AND CONCEPTUAL GAPS

Measurement fragmentation is always named as the greatest weakness of the existing ESG frameworks in the critical literature. Even the advanced rating systems cannot focus on the multidimensional and context-related character of the sustainability performance. According to Atkins et al. (2023), most of the ESG metrics are backward-looking and based on the self-reported corporate data, which further adds the risk of bias and manipulation. The other significant gap is the issue of over-financialization of sustainability. According to Dos Santos et al. (2025), the financial material nature of the investor-centric orientation of ESG would be unjustifiably beneficial at the expense of the wider societal consequences. This criticism poses a fundamental issue that ESG reflects actual sustainability performance rather than mainly reflects financial sustainability risk. The ESG research also has geographical disproportions which are notable. A large part of the empirical research is devoted to the developed markets, especially North America and Europe. As Rahmiyati (2025) and Kandpal et al. (2024) point out, more focus should be given to the emerging economies because the institutional environment, the regulatory capacity, and expectations among the stakeholders vary greatly. ESG frameworks will be limited to perpetuating global inequalities in sustainable finance unless they have the broader scope of geographic coverage. Another extremely important research frontier is assurance and verification mechanisms. Even though external assurance may enhance credibility of disclosure,

Boiral et al. (2024) observe that their adoption is uneven and methodology is widely diverse. The development of the digital technology, such as artificial intelligence and distributed ledger systems, could provide promising directions in improving the reliability of ESG data, but there is not enough empirical evidence.

## 7. FUTURE RESEARCH DIRECTIONS

The need to develop harmonized ESG measurement standards that will allow reducing rating divergence and enhancing cross-provider comparability therefore are of primary importance to future scholarship. The increased transparency of methods used by rating agencies is necessary to enhance investor confidence and academia. Another shift that should be made by the researchers is the increased focus on outcome-based indicators of sustainability that enable measuring the actual environmental and social consequences, instead of making major use of policy and disclosure proxies. More inclusive ESG frameworks that would include the insights of the Global South and Indigenous peoples are also desperately needed. The extension of the cultural and institutional horizons of ESG studies will enhance its international applicability and normativity. More widely, longitudinal research and causal research should be used to elucidate the intricate correlation between ESG performance and financial results. Last but not least, new technologies are available to ensure ESG and monitor sustainability in real-time which can be investigated in interdisciplinary research.

## 8. CONCLUSION

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