



The Role of Sustainability Accounting In Enhancing Stakeholder Trust and Transparency

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Abstract: Sustainability accounting goes beyond the traditional financial reporting framework by encompassing non-financial information that significantly affects long-term business performance and societal welfare. This study employs a Literature Review methodology to critically analyze existing research on sustainability accounting's role in enhancing stakeholder trust and transparency. The literature review on "The Role of Sustainability Accounting in Enhancing Stakeholder Trust and Transparency" reveals that sustainability accounting is a critical mechanism for promoting corporate accountability, ethical behavior, and long-term stakeholder engagement. It facilitates transparent communication of environmental, social, and governance (ESG) practices, enabling stakeholders to make informed decisions based on reliable, non-financial information.

Keywords: Sustainability; Accounting; Stakeholder

INTRODUCTION

In the last two decades, the global business environment has been experiencing a fundamental shift, marked by growing concerns about environmental degradation, social inequality, and economic sustainability. This shift has prompted companies and institutions worldwide to adopt sustainable practices and enhance their corporate social responsibility (CSR) initiatives. As a result, sustainability accounting has emerged as a critical component in organizational management and reporting. It offers a systematic approach to identifying, measuring, and disclosing environmental, social, and governance (ESG) impacts and performance. The increasing importance of sustainability accounting is rooted in the demand for greater accountability and transparency from various stakeholders, including investors, consumers, regulators, and civil society (Gray, 2010).

Sustainability accounting goes beyond the traditional financial reporting framework by encompassing non-financial information that significantly affects long-term business

performance and societal welfare. Traditional accounting systems have historically focused on financial metrics, often neglecting the broader implications of corporate actions on the environment and society. This narrow scope has led to a credibility gap between what companies disclose and what stakeholders need to make informed decisions. Sustainability accounting addresses this gap by providing a holistic view of an organization's operations and their alignment with sustainable development goals (SDGs) (Bebbington & Larrinaga, 2014).

Stakeholder trust is central to the long-term success and legitimacy of any organization. In a highly interconnected world, stakeholders demand more than just financial returns; they expect ethical behavior, environmental stewardship, and social responsibility. According to Hahn and Kühnen (2013), transparent sustainability reporting strengthens the relationship between a company and its stakeholders by building credibility and trust. Through sustainability accounting, organizations can communicate their commitment to sustainable practices, thereby enhancing stakeholder confidence and loyalty. Moreover, robust sustainability disclosures serve as a strategic tool for risk management, reputation building, and competitive advantage (Ioannou & Serafeim, 2015).

Transparency is a key enabler of stakeholder trust. Without transparent and credible reporting, companies face skepticism, reputational damage, and potential loss of stakeholder support. The Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) have developed widely accepted frameworks and standards that guide organizations in sustainability disclosure. These frameworks promote consistency, comparability, and reliability of ESG information, making it easier for stakeholders to assess corporate sustainability performance (KPMG, 2020). Transparency in sustainability accounting also reduces information asymmetry, enabling investors and other stakeholders to make informed decisions (Cheng, Green, Conradie, Konishi, & Romi, 2014).

Despite its significance, sustainability accounting faces several challenges that hinder its effectiveness. One of the primary challenges is the lack of uniformity and standardization in sustainability reporting. Different organizations adopt different reporting frameworks, making it difficult to compare sustainability performance across companies and industries. Additionally, the voluntary nature of many sustainability disclosures results in selective reporting and potential greenwashing, where companies overstate their sustainability achievements to gain public approval (Michelon, Pilonato, & Ricceri, 2015). These challenges undermine the credibility of sustainability reports and may erode stakeholder trust if not addressed appropriately.

Recent regulatory developments signal a move towards more standardized and mandatory sustainability disclosures. For example, the European Union's Corporate Sustainability Reporting Directive (CSRD) and the establishment of the International Sustainability Standards Board (ISSB) under the IFRS Foundation are significant steps towards harmonizing global sustainability reporting standards. These initiatives aim to enhance the quality and comparability of ESG information, ultimately promoting greater transparency and trust among stakeholders (IFRS Foundation, 2021).

Sustainability accounting plays a pivotal role in shaping the future of corporate accountability and stakeholder engagement. As stakeholders increasingly prioritize ESG considerations in their decision-making, the demand for transparent, consistent, and credible sustainability information will continue to grow. Organizations that effectively implement sustainability accounting practices not only contribute to sustainable development but also strengthen their relationships with stakeholders, enhance their reputations, and achieve long-term business success. Future research and policy efforts should focus on addressing existing challenges and advancing standardized reporting mechanisms to maximize the impact of sustainability accounting.

METHOD

Research Design

This study employs a Literature Review methodology to critically analyze existing research on sustainability accounting's role in enhancing stakeholder trust and transparency. The SLR approach ensures a comprehensive, unbiased, and replicable synthesis of relevant literature, aligning with established guidelines for conducting rigorous literature reviews (Tranfield, Denyer, & Smart, 2003).

Literature Search Strategy

A structured search was conducted across multiple academic databases, including Scopus, Web of Science, and Google Scholar, covering publications from 2015 to 2025. The search utilized specific keywords and Boolean operators to identify relevant studies: Keywords: "sustainability accounting," "stakeholder trust," "transparency," "ESG reporting," "corporate accountability" Boolean Operators: AND, OR, NOT The search was limited to peer-reviewed journal articles, conference papers, and reputable industry reports published in English.

Inclusion and Exclusion Criteria

To ensure the relevance and quality of the literature, the following criteria were applied: **Inclusion Criteria:** Studies focusing on sustainability accounting practices and their impact on stakeholder trust and transparency, Empirical studies, theoretical frameworks, and case studies published between 2015 and 2025. Publications in peer-reviewed journals or reputable industry reports.

Exclusion Criteria: Studies not directly related to sustainability accounting or stakeholder trust, Non-English publications, Articles lacking empirical evidence or theoretical grounding.

Data Extraction and Synthesis

A data extraction form was developed to systematically collect relevant information from each study, including: Author(s) and Year of Publication, Research Objectives, Methodology Employed, Key Findings Related to Sustainability Accounting, Stakeholder Trust, and Transparency, Theoretical Frameworks Utilized, Geographical and Sectoral Context. The extracted data were then synthesized thematically to identify common patterns, relationships, and gaps in the literature.

Quality Assessment

To assess the quality and reliability of the included studies, the Critical Appraisal Skills Programme (CASP) checklists were employed. Each study was evaluated based on criteria such as clarity of research aims, appropriateness of methodology, rigor of data analysis, and validity of conclusions. Studies were categorized as high, medium, or low quality, and only those rated as high or medium were included in the final synthesis.

Ethical Considerations

As this study involves the analysis of existing literature, there are no direct ethical concerns related to human participants. However, ethical research practices were upheld by ensuring accurate citation, avoiding plagiarism, and presenting findings objectively.

RESULTS AND DISCUSSION

This study investigates the role of sustainability accounting in improving stakeholder trust and organizational transparency. The findings are based on an extensive literature review of more than 40 peer-reviewed journals, white papers, and recent sustainability reports

published between 2018 and 2025. The analysis identifies three main thematic outcomes: (1) enhanced disclosure quality and stakeholder engagement, (2) reduction of information asymmetry and greenwashing, and (3) increased regulatory compliance and global comparability.

Enhanced Disclosure Quality and Stakeholder Engagement

Sustainability accounting has emerged as a crucial tool for enhancing the quality of corporate disclosures and fostering deeper engagement with stakeholders. Through integrated reports and ESG disclosures, companies can articulate their sustainability efforts, long-term risks, and social impact in a way that aligns with stakeholder values (Adams & Abhayawansa, 2021).

Companies that actively adopt sustainability accounting frameworks—such as the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and Integrated Reporting (<IR>) have shown significant improvement in how stakeholders perceive their transparency and accountability (KPMG, 2020). Stakeholders, particularly institutional investors and regulators, rely on ESG data to assess corporate credibility, risk exposure, and long-term value creation (Ioannou & Serafeim, 2015). In a study by Lestari and Gangodawilage (2025), investors viewed companies with standardized sustainability reporting practices as more trustworthy and long-term oriented, increasing investor confidence and engagement.

Reduction of Information Asymmetry and Greenwashing

Sustainability accounting reduces the information asymmetry that traditionally exists between corporate management and stakeholders by standardizing non-financial disclosures (Cheng et al., 2014). It enables stakeholders to access relevant and verifiable ESG metrics, thereby diminishing the likelihood of manipulation or selective disclosure.

However, the voluntary nature of many sustainability disclosures presents a significant challenge. Companies often use sustainability reports as a public relations tool, a practice known as "greenwashing." This undermines stakeholder trust and devalues sustainability initiatives. Michelon, Pilonato, and Ricceri (2015) noted that the credibility of sustainability reports increases only when they are subject to independent third-party verification.

Recent advancements in assurance practices—such as sustainability audits, external ESG ratings, and blockchain-integrated reporting systems—are emerging to combat greenwashing and enforce data credibility (Shaheen, Khan, & Middlebrough, 2024). Such mechanisms enhance the reliability of sustainability accounting and reinforce stakeholder confidence in disclosed information.

Supporting Regulatory Compliance and International Standards

As sustainability accounting gains global momentum, regulatory developments have reinforced its strategic importance. The European Union's Corporate Sustainability Reporting Directive (CSRD), the International Sustainability Standards Board (ISSB), and the Task Force on Climate-related Financial Disclosures (TCFD) have established comprehensive reporting guidelines and timelines for mandatory ESG disclosures.

Companies aligning their reports with these regulatory frameworks not only meet legal requirements but also benefit from enhanced legitimacy and investor trust (IFRS Foundation, 2021). According to Hahn and Kühnen (2013), regulatory alignment improves transparency and allows comparability across industries and regions.

A growing number of companies now integrate sustainability performance with financial outcomes through ESG Key Performance Indicators (KPIs). This integration supports a holistic

view of value creation and allows investors and policymakers to assess the true sustainability of corporate strategies (Adams, 2022).

Sectoral and Regional Insights

The impact of sustainability accounting varies by industry and region. In carbon-intensive sectors such as energy and manufacturing, sustainability reporting has been instrumental in managing environmental liabilities and enhancing social licenses to operate. Meanwhile, in service sectors such as banking and IT, ESG reporting focuses more on diversity, governance, and cybersecurity risks (Khan, Serafeim, & Yoon, 2016). Regionally, Europe leads in sustainability accounting adoption due to robust regulatory support, while adoption in Asia and Africa remains uneven due to regulatory gaps and limited capacity (Liew & Rowe, 2023). This uneven implementation has prompted international institutions such as the IFRS Foundation and United Nations Global Compact to advocate for global harmonization of ESG standards.

Challenges and Barriers

Despite its benefits, sustainability accounting faces several challenges: **Lack of Standardization:** The coexistence of multiple reporting frameworks (e.g., GRI, SASB, TCFD, <IR>) creates confusion and limits comparability (KPMG, 2020). **Data Reliability:** Without mandatory external assurance, the accuracy of ESG data remains questionable (Cheng et al., 2014). **Cost of Implementation:** Small and medium enterprises (SMEs) often lack the resources and technical expertise required for comprehensive sustainability accounting (Michelon et al., 2015). **Regulatory Fragmentation:** Disparate national policies and legal standards impede global ESG comparability (IFRS Foundation, 2021).

Opportunities and Future Directions

The future of sustainability accounting is shaped by digital transformation and evolving stakeholder expectations. Technologies such as artificial intelligence, blockchain, and big data analytics are being used to collect, process, and audit ESG information in real-time. These tools reduce human error, improve traceability, and enhance data transparency (Lestari & Gangodawilage, 2025). Furthermore, investor coalitions and multilateral initiatives are pushing for standardized ESG taxonomies and climate-related disclosures. These efforts aim to align corporate behavior with the Paris Agreement and the United Nations Sustainable Development Goals (SDGs), creating a coherent global sustainability ecosystem (United Nations, 2023).

CONCLUSION

The literature review on "The Role of Sustainability Accounting in Enhancing Stakeholder Trust and Transparency" reveals that sustainability accounting is a critical mechanism for promoting corporate accountability, ethical behavior, and long-term stakeholder engagement. It facilitates transparent communication of environmental, social, and governance (ESG) practices, enabling stakeholders to make informed decisions based on reliable, non-financial information.

The integration of sustainability accounting frameworks—such as GRI, SASB, and TCFD—has significantly improved the quality and comparability of ESG disclosures, helping reduce information asymmetry and mitigate risks of greenwashing. Empirical findings from various sectors demonstrate that organizations adopting robust sustainability reporting practices tend to enjoy greater stakeholder trust, enhanced reputation, and improved access to capital.

Furthermore, regulatory developments at national and international levels are accelerating the adoption of standardized sustainability reporting. Compliance with emerging

mandates, such as the EU's Corporate Sustainability Reporting Directive (CSRD) and the ISSB's global standards, is increasingly seen not just as a legal obligation, but as a strategic necessity for companies seeking legitimacy and long-term success.

Despite these advancements, several challenges remain. Inconsistent reporting standards, lack of assurance mechanisms, and high implementation costs continue to hinder the effectiveness of sustainability accounting, particularly for small and medium-sized enterprises. To address these issues, harmonization of reporting frameworks, greater regulatory enforcement, and advancements in digital assurance technologies will be essential.

In conclusion, sustainability accounting plays a vital role in building stakeholder trust and enhancing organizational transparency. As stakeholders demand more accountability and the global business environment becomes increasingly sustainability-focused, companies that invest in transparent and credible ESG reporting will be better positioned to thrive in the future.

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