THE ROLE OF ACCOUNTING IN CORPORATE SOCIAL RESPONSIBILITY AND ESG DISCLOSURE

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Abstract

Corporate Social Responsibility (CSR) and Environmental, Social, and Governance (ESG) disclosures have gained increasing prominence in contemporary business practices. This study examines the critical role of accounting in enhancing the transparency, accuracy, and reliability of CSR and ESG disclosures. By integrating ESG metrics into accounting frameworks, this research identifies key challenges and opportunities in accounting for CSR-related activities. Utilizing a mixed-methods approach, including case studies of leading corporations and surveys of accounting professionals, this study explores the impact of ESG disclosures on stakeholder trust and corporate reputation. The findings emphasize the necessity for standardized ESG reporting frameworks and highlight the evolving role of accountants in promoting corporate sustainability. This study also provides best practices for accounting professionals to improve ESG disclosure quality, thereby strengthening corporate accountability and long-term value creation.

Keywords: Corporate Social Responsibility, ESG Disclosure, Accounting Practices, Transparency, Stakeholder

INTRODUCTION

The implementation of Environmental, Social, and Governance (ESG) principles has become a major focus for many companies in recent years. ESG not only reflects corporate social and environmental responsibility but also serves as an indicator of positive financial performance. Research by Wahdan et al. (2023) indicates that financial performance is positively influenced by ESG considerations, particularly in terms of ESG disclosure (Labaco, 2024). This highlights that integrating ESG into business strategies can enhance corporate profitability.

Furthermore, transparent ESG disclosure can increase investor confidence and trust among other stakeholders. According to a study published in Jurnal Akuntansi Multiparadigma, companies listed in ESG indices demonstrate higher profitability and better stock price movements compared to companies that do not implement ESG principles (Saripah, 2024). This finding underscores the growing importance of ESG factors in investment decision-making.

The implementation of ESG also provides companies with a competitive advantage. As reported on the Sucofindo page (2025), by adopting ESG practices, companies can better identify and manage risks associated with climate change, social issues, and regulatory compliance. Additionally, companies that incorporate ESG principles are more likely to develop environmentally friendly products and services, improve energy efficiency, and align with societal needs. This, in turn, enhances customer satisfaction and opens new market opportunities (humasindonesia.id, 2024).

However, despite the extensive evidence supporting the positive relationship between ESG and financial performance, challenges remain in its implementation. Some companies may face high initial costs when adopting ESG practices or difficulties in quantifying the tangible impacts of these initiatives. Therefore, it is crucial for businesses to strategically plan and integrate ESG into their business models to ensure long-term benefits.

Overall, integrating ESG into business strategies is not merely about fulfilling social and environmental responsibilities but also about creating added value for companies. By enhancing transparency, effectively managing risks, and meeting stakeholder expectations, businesses can achieve superior financial performance and ensure long-term sustainability.

LITERATURE REVIEW

Sustainability Accounting

Sustainability accounting has emerged as a critical field in modern financial reporting, integrating environmental, social, and governance (ESG) factors into corporate decision-making and disclosure practices. This approach enhances transparency, accountability, and long-term value creation for stakeholders (Ioannou & Serafeim, 2019). As global concerns over climate change, social inequality, and corporate governance intensify, regulatory bodies and investors increasingly demand sustainability-related disclosures to assess corporate performance beyond traditional financial metrics (Kolk, 2020).

The concept of sustainability accounting aligns with the broader framework of corporate social responsibility (CSR) and integrated reporting. The Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) provide widely accepted guidelines for sustainability disclosure, which help companies structure their reports in a consistent and comparable manner (Eccles & Krzus, 2020). A study by de Villiers et al. (2021) highlights that firms with comprehensive sustainability reporting frameworks tend to attract more long-term investors and experience lower capital costs.

Moreover, sustainability accounting facilitates risk management by identifying potential environmental liabilities and social risks. For example, research conducted by KPMG (2021) indicates that companies integrating ESG factors into their risk assessment processes demonstrate higher resilience during economic downturns. Furthermore, the role of sustainability accounting in driving corporate performance has been well-documented, with empirical evidence suggesting a positive correlation between ESG disclosure and firm profitability (Fatemi et al., 2022).

Despite its advantages, sustainability accounting faces several challenges, including data reliability, standardization issues, and greenwashing concerns. Many firms struggle with inconsistent reporting practices due to varying regulatory requirements across jurisdictions (Mio, 2022). Additionally, companies may engage in selective disclosure to present a favorable image while neglecting substantial ESG risks

(Michelon et al., 2023). Addressing these challenges requires regulatory harmonization and enhanced assurance mechanisms to ensure the credibility of sustainability reports.

In conclusion, sustainability accounting is an evolving discipline that plays a crucial role in corporate transparency and risk management. Future research should explore the integration of artificial intelligence (AI) and blockchain technology in sustainability reporting to enhance accuracy and verifiability. As the field progresses, continuous efforts from academics, practitioners, and policymakers will be essential in shaping standardized sustainability reporting frameworks that foster corporate accountability and sustainable economic development.

Why Accounting Frameworks and ESG are Interrelated ?

The interrelationship between accounting frameworks and Environmental, Social, and Governance (ESG) considerations has become a focal point in contemporary financial and sustainability reporting. Accounting frameworks, such as the International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles (GAAP), have evolved to incorporate sustainability aspects, ensuring transparency and accountability in corporate reporting (Adams, 2020). The integration of ESG factors within accounting standards aims to provide stakeholders with a holistic view of an organization's financial health and its long-term sustainability impact (Khan et al., 2021).

Several studies have emphasized that traditional financial reporting, which primarily focuses on profitability, is no longer sufficient in evaluating a company's overall performance. The emergence of sustainability reporting frameworks, such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB), has highlighted the need for an integrated approach that aligns financial and non-financial performance indicators (Eccles & Krzus, 2019). These frameworks guide organizations in disclosing ESG-related risks and opportunities, which, in turn, influence investment decisions and corporate valuation (Barker & Eccles, 2023).

A growing body of literature suggests that the incorporation of ESG considerations into accounting frameworks enhances corporate governance, reduces information asymmetry, and mitigates financial risks. For instance, research by Cheng et al. (2022) found that companies with robust ESG disclosures tend to have lower capital costs and higher investor confidence. Moreover, regulatory bodies, such as the European Union and the U.S. Securities and Exchange Commission (SEC), have intensified their efforts to standardize ESG reporting requirements, thereby reinforcing the link between ESG and accounting frameworks (Mio et al., 2020).

From an academic standpoint, scholars argue that ESG integration in accounting is not merely a compliance exercise but a strategic imperative that fosters sustainable business practices (De Villiers et al., 2021). The adoption of ESG metrics within accounting frameworks enables firms to identify and manage environmental and social risks proactively, thereby enhancing long-term corporate resilience (Michelon et al., 2022). Additionally, sustainability-focused accounting frameworks contribute to stakeholder trust by improving corporate transparency and ethical business conduct (Garcia-Torea et al., 2023).

In conclusion, the convergence of accounting frameworks and ESG reporting is a pivotal development in the financial landscape. The evolution of sustainability accounting standards signifies a paradigm shift towards responsible corporate governance and ethical business practices. As global regulatory bodies continue to refine ESG disclosure requirements, organizations must align their financial reporting with sustainability objectives to ensure long-term value creation and stakeholder confidence (Bebbington & Unerman, 2022).

How Accounting Frameworks Accommodate ESG?

a. **Voluntary Disclosure:** Many companies have begun adopting sustainability reporting frameworks such as the Global Reporting Initiative (GRI) to voluntarily disclose ESG information.
b. **Industry-Specific Standards:** The Sustainability Accounting Standards Board (SASB) develops industry-specific sustainability accounting standards, helping companies identify the sustainability matters most relevant to investors.
c. **Evolving Regulations:** A number of financial regulators are beginning to issue guidelines and regulations that promote ESG disclosures, such as the Task Force on Climate-related Financial Disclosures (TCFD).
d. **Integration into Financial Reports:** Some companies have begun integrating ESG metrics into their financial reports, for example by adding footnotes or integrated sustainability reports.

Understanding ESG Metrics

The increasing focus on sustainable development in business and investment has resulted in the widespread use of Environmental, Social, and Governance (ESG) metrics. These metrics have evolved from being a specialized concern to a standard factor in assessing corporate performance and investment choices.

ESG metrics, once considered niche concerns for a select group of investors, have now become a mainstream business focus. As awareness of environmental and social issues has grown, investors increasingly recognize that companies with strong ESG practices tend to be more stable and profitable in the long run. This shift has been driven by a variety of factors, including growing consumer awareness, stricter regulations, and the understanding that sustainability is key to long-term business success.

The Role of Accounting in Corporate Social Responsibility and ESG Disclosure

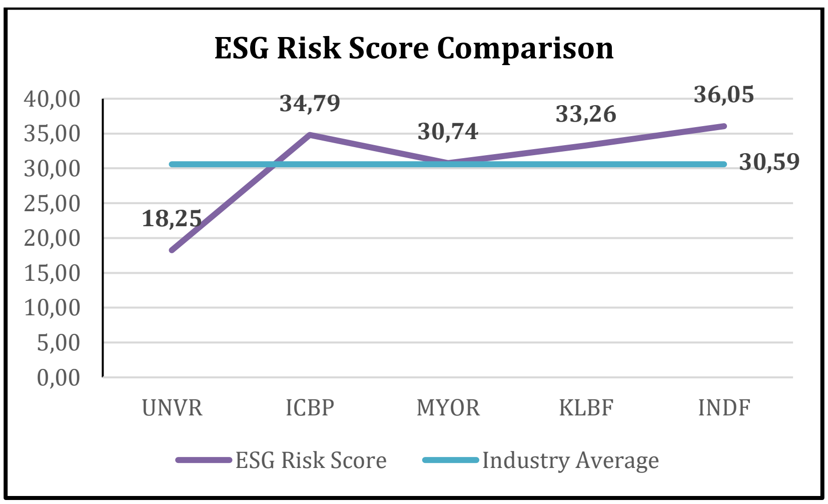
By examining the integration of ESG metrics into accounting frameworks, the research identifies the challenges and opportunities associated with accounting for CSR activities. We analyze how accounting practices can enhance the transparency, accuracy, and reliability of ESG reporting, and investigate the impact of such disclosures on stakeholder trust and corporate reputation

FINDING AND DISCUSSION

Integration of Accounting and ESG Metrics at Unilever Indonesia: A Case Study

A case study of PT. Unilever Indonesia, Tbk (UNVR) demonstrates that multinational companies can effectively integrate ESG principles into their business practices, including their accounting systems. An analysis of Indonesia Stock Exchange data in 2024 shows that UNVR has an outstanding ESG performance compared to other FMCG companies (Last Update May 2024).

	UNVR	ICBP	MYOR	KLBF	INDF	INDUSTRY AVERAGE
Enviromental Risk Score	6,95	15,66	N/A	4,64	12,83	10,02
Social Risk Score	6,29	12,06	N/A	17,92	15,90	13,04
Governance Risk Score	5,01	7,07	N/A	10,70	7,32	7,53
ESG Risk Score	**18,25**	**34,79**	**30,74**	**33,26**	**36,05**	**30,59**



ESG scores serve as a benchmark to measure a company's exposure to environmental, social, and governance risks. By being included in the top 30 ESG Leaders, UNVR has demonstrated that implementing ESG principles not only enhances the company's reputation but also strengthens its resilience in the face of change. This indicates that UNVR's commitment to ESG is more than just talk; it is integrated into its business practices, including accounting.

How Does Unilever Indonesia Implement ESG in Accounting?

a. Comprehensive ESG Information Disclosure

1) **Sustainability Report:** Unilever Indonesia has integrated sustainability principles into its

business operations, as evidenced by its annual sustainability reports aligned with the AA1000 Accountability Principle (2018) standard includes the Accountability Principles of Inclusivity, Materiality, Responsiveness, and Impact in accordance with the Independent Sustainability Assurance Report. These reports provide a comprehensive assessment of the company's ESG performance, covering areas such as carbon emissions, water stewardship, and labor practices.

2) **Integration into Financial Reports:** The disclosure of material ESG information, such as environmental impacts, within financial reports, particularly in the notes to the financial statements, has become a prevalent practice. This development underscores the heightened awareness among companies regarding the significance of transparency and accountability in addressing ESG issues. Consequently, investors are provided with a more comprehensive understanding of a company's risk profile and growth prospects.
3) **ESG Information Disclosure:** UNVR has proactively and voluntarily disclosed ESG information. Through sustainability reports and other communication channels, the company provides public access to data and information relevant to ESG performance, including disclosure of the impacts of 9 material topics. This aims to improve corporate accountability and facilitate stakeholder evaluation.

b. ESG Metrics Measurement and Reporting:

1) **Metric Development:** Unilever Indonesia has developed various metrics to measure ESG performance, such as carbon emission reduction, use of sustainable raw materials, and increasing the number of employees trained which are reported in detail both in terms of achievements and future targets.
2) **Reporting Transparency:** These metrics are reported transparently in the sustainability report and financial statements, allowing stakeholders to monitor the company's progress in achieving sustainability goals. Supply Chain Transparency Unilever Indonesia conducts supply chain mapping to identify social and environmental risks. The company also works with suppliers to ensure they meet the established ESG standards.

c. Materiality Assessment

Identify and focus on material issues Unilever Indonesia conducts a materiality assessment to identify the ESG issues that are most relevant to the business and stakeholders, by compiling a material topic matrix containing 9 material issues along with a priority scale for ESG and stakeholder engagement.

d. Adoption of International Reporting Standard

PT Unilever Indonesia Tbk has implemented the Global Reporting Initiative (GRI) Standards as a framework for sustainability reporting. The internationally recognized GRI Standards provide a detailed guideline for the disclosure of material information related to the economic, environmental, and social impacts of the company's operations.

e. **ESG Integration in Decision-Making Process**

UNVR has identified and carried out risk management processes for all possible risks that occur such as commodity price volatility through a commitment to reduce dependence on one source of supply, provide training to local farmers to obtain a sustainable supply of raw materials, implement a sustainability strategy through "The Unilever Compass" to deal with uncertain geopolitical situations that can affect global supply and demand through.

The company periodically evaluates and monitors risks that have the potential to disrupt the achievement of the company's sustainability targets

Challenge and Opportunity

The Challenges of Integrating ESG Metrics with Accounting Disclosures.

Integrating ESG metrics into financial reporting is a crucial step in ensuring a company's transparency and accountability in terms of sustainability performance. However, this process is not without its challenges. The main challenges in integrating ESG metrics include:

a. The subjective nature of ESG issues for each business profile, coupled with the lack of universal definitions for ESG metrics, makes inter-company comparisons difficult. Each company may have a different approach to measuring and reporting ESG metrics.
b. Requires a significant investment in terms of time and technology capable of supporting the integration and analysis of both financial and non-quantitative data.
c. Companies need to have specialized employees, such as “Sustainability Accountants” who are capable of integrating ESG metrics into financial reports.
d. ESG metrics often do not align with established accounting principles, such as recognition and measurement principles.
e. Determining the materiality of an ESG metric can be a challenge, especially for companies that are just beginning the sustainability reporting process.
f. There are concerns that disclosing too much ESG information could increase the risk of litigation.

Opportunity

The integration of Environmental, Social, and Governance (ESG) metrics into accounting disclosures presents significant opportunities for companies to achieve long-term sustainability and enhance corporate value. Some potential benefits include:

a. Transparent and accountable ESG disclosures can enhance investor, customer, employee, and public trust in a company.
b. Early identification and effective management of ESG risks can mitigate potential financial and

reputational losses for companies.

c. Enhanced financial performance can be achieved through easier access to capital from long-term investors, while sustainable business practices can lead to cost savings, such as through reduced energy and waste consumption, and the adoption of renewable energy.
d. Enhanced Competitiveness: Companies committed to ESG typically enjoy a stronger brand reputation and a greater appeal to consumers.

CONCLUSION

The integration of ESG metrics into accounting frameworks is a critical step towards enhancing corporate transparency, accountability, and sustainability. By providing stakeholders with a more comprehensive view of a company's performance, ESG disclosures can drive informed decision-making, mitigate risks, and improve a company's reputation.

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